Annual Report 1982

GENSTAR

Genstar Corporation

Corporate Information

Auditors: Coopers & Lybrand, Vancouver, British Columbia

Transfer Agents and Registrars: Canada Permanent Trust Company, Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

Morgan Guaranty Trust Company of New York, New York

Stock Exchanges: (Symbol GST) Toronto, Montreal, Alberta and Vancouver Stock Exchanges in Canada

New York and Pacific Stock Exchanges in the United States

Brussels and Antwerp Bourses in Belgium

Zurich, Geneva and Basel Exchanges in Switzerland

Luxembourg Stock Exchange

Annual Meeting

The Annual and Special Meeting of Genstar shareholders will be held on Wednesday, May 11, 1983, at 11:00 a.m. at the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia, Canada.

Form 10-K
Genstar Corporation is incorporated under the laws of Canada. The company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Public Relations Department of the company.

Stock Dividend and Dividend Reinvestment Plans
Genstar has established separate optional plans as convenient means for holders of its registered common shares to elect either to receive stock dividends in lieu of cash or to acquire additional Genstar shares through reinvestment of cash dividends and optional cash payments. For more information, contact: Canada Permanent Trust Company, Box 10152, Pacific Centre North, 701 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1E5.

Version Française
Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des Relations Publiques de la Société.

Genstar Corporation

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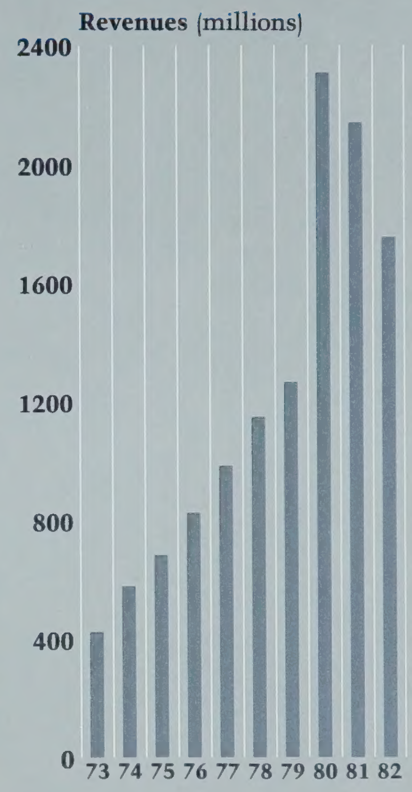
Corporate Profile

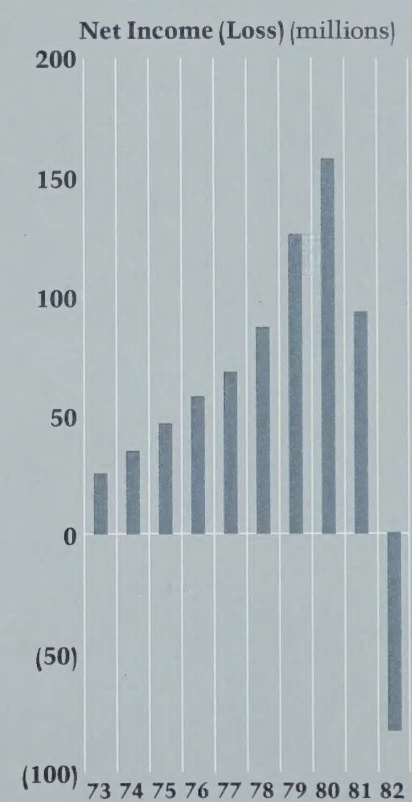
Genstar Corporation is a leading manufacturer and supplier of building materials and services and is a major developer of land and real estate. Primary markets include the western provinces of Canada and the western and southern "Sunbelt" regions of the United States. The company also has significant financial service operations throughout Canada and the U.S.

Contents

Financial Highlights

(For the years ended December 31)	1982	1981 (restated)
	(millions of Canadian dollars)	
Revenues	**$1,760.2**	$2,145.9
Funds from (Required by) Operations	**(106.1)**	145.3
Depreciation, Depletion and Amortization	**70.9**	78.8
Net Income (Loss)	**(84.3)**	93.8
Dividends on Common Shares	**27.7**	54.8
Net Income (Loss) per Common Share:		
Canadian Method		
—Basic	**$ (3.36)**	$ 2.40
—Fully Diluted	**(3.36)**	2.34
United States Method		
—Primary	**(3.36)**	2.37
—Fully Diluted	**(3.36)**	2.34
Dividends per Common Share (Current annual rate $0.60)	**0.90**	1.80





Report of the Directors

Ross J. Turner and Angus A. MacNaughton

The recession that commenced a year earlier in the United States spread to Canadian markets in 1982, making it a difficult year for many North American corporations. New housing starts fell to their lowest point since World War II as unacceptable levels of unemployment severely dampened consumer confidence and high interest rates persisted through most of the year. This not only depressed activity in Genstar's building materials and real estate businesses but also increased interest costs of the company's variable-rate debt. Despite progress throughout the year in reducing short-term debt and other expenses and in improving the cost effectiveness of operations, the corporation experienced a substantial loss.

Financial Results

For the year ended December 31, 1982, Genstar incurred a loss of $84.3 million or $3.36 per common share, compared to restated net income of $93.8 million or $2.40 per share in 1981. Revenues totaled $1.8 billion, down from $2.1 billion the year before. Income in 1981 was restated following a change in the method of accounting for foreign exchange translations.

Reflected in the loss are approximately $110 million in pre-tax reserves that were set aside during 1982. The reserves cover current and anticipated future costs of closing several operations and losses from or reductions in value of real estate ventures and assets.

The losses were incurred almost entirely in the United States by the company's homebuilding operations, by real estate joint ventures, and by cement and building supplies manufacturing divisions. These same businesses had experienced difficulties in 1981, but losses that year were more than offset by relative strength in key Canadian markets. This was not the case in 1982, when profits in Canada fell substantially as the country entered a period of deep recession.

Genstar's other businesses were generally profitable, although at lower levels than in 1981. Overall, operating income after reserves in 1982 was $24.5 million, down from $242.4 million a year ago. An important highlight of the otherwise difficult year was the growth of Genstar financial service activities, where operating income rose approximately 60 percent.

Significant Developments

Under these severe business conditions, several areas of concern were given highest priority in 1982:

• *Increasing operating efficiency and reducing expenses*

In 1982, the company limited its capital expenditures primarily to projects that will enhance the productivity and cost effectiveness of existing operations, and total expenditures declined by 55 percent to $66.2 million, down from $147.5 million a year ago. Expenditures of $56.6 million are planned in 1983.

In addition, several unprofitable or inefficient plants and facilities were sold or permanently closed, and the company continued to phase out heavy construction operations and divested its consumer-oriented thrift and loan business in California. As plants were closed and activities reduced in scope, Genstar cut its work force by roughly 20 percent. The company operated with an average of 2,500 fewer employees throughout 1982, and approximately 3,700 fewer were employed at year-end than at the end of 1981.

These and other actions helped keep selling, general and administrative costs $54 million lower than in 1981 and significantly reduced operating costs. The magnitude of operational savings, however, will not be fully felt until 1983, as there were substantial expenses associated with plant closures and termination of employees.

• *Improving cash flow and reducing short-term debt*

The cutbacks just discussed contributed to cash flow by improving overall operating efficiency and by reducing requirements for working capital and capital expenditures. Also contributing were proceeds from the sale of discontinued operations and the continuing disposal of surplus assets. In addition, there were significant reductions in accounts

receivable and inventories. By building primarily on a presold basis, wholly-owned U.S. and Canadian homebuilding divisions reduced by 60 percent the number of residential units available for sale, and temporary plant closings reduced manufacturing inventories.

As another means of conserving cash, quarterly dividends were reduced from 45 cents to 15 cents per common share, beginning in the second quarter. Genstar also generated about $65 million in cash through an agreement completed in early 1982 to sell and lease back more than 2,300 pieces of its mobile construction equipment.

Total debt rose slightly during the year as a result of consolidating several real estate joint ventures which became wholly owned after the company's partners experienced financial difficulties. Short-term borrowings were reduced by $151 million, however, to a total of $415 million at year-end. It is the company's intention to further reduce short-term debt in 1983.

• *Stabilizing the earnings base by reducing dependence on interest-sensitive, cyclical businesses*

This is a longer range goal toward which progress was made in 1982. The reduction in scope of homebuilding activities and withdrawal from heavy construction will contribute to this objective. Another key to its accomplishment lies in the redirection of resources to growing financial service operations, which are more stable than the company's other businesses.

A year ago, Genstar added significantly to such activities with the $288-million acquisition of Canada Permanent Mortgage Corporation. In 1982, the company purchased its partner's remaining interests in American Funding Limited, a U.S. firm active in second mortgage financing. The assets of these and other financial service operations, which now total approximately $6.6 billion, were consolidated in late 1982 within a single subsidiary, Genstar Financial Corporation. This new subsidiary is structured to raise funds in the capital markets to finance its own operations. That ability, along with direct infusions of capital from Genstar if needed, will make sufficient resources available to support growth in what the company feels is one of its most promising businesses.

Outlook

Genstar believes that economic recovery is finally under way in the United States, and that this in turn will eventually benefit the Canadian economy. What remains to be seen, however, is how rapid and strong the recovery will be.

Signs in the U.S. were encouraging at year-end and in the early months of 1983. Inflation appears to be in check, interest rates have fallen, and homebuyers are beginning to return to the marketplace. Unemployment remains high, however, and could forestall the expected upturn in consumer confidence. Competition in capital markets between the large federal deficits and renewed business borrowing could also drive up interest rates. Until these problems are dealt with, the company must regard the recovery as somewhat fragile.

Nevertheless, the cutbacks achieved in 1982 have made Genstar a leaner, more efficient company than it was a year ago. The corporation should also benefit from continued strength in the financial services business sector and from additional sales of surplus assets. If positive trends continue, the performance of most operations should improve.

Looking beyond 1983, corporate earnings usually rebound sharply after a recession since cost reduction measures such as those undertaken by Genstar lead to improved productivity and higher margins when sales rise. In the U.S. and Canada, the company's remaining manufacturing plants are cost-effective facilities which, along with real estate assets, are located in regions that have historically enjoyed above-average growth. These factors, coupled with continuing efforts to reduce debt and diversify the earnings base, leave the corporation well positioned to prosper from economic recovery.

Board of Directors

At the annual meeting of shareholders in May 1982, Mr. Yves Boël, Managing Director of Sofina S.A., retired as a Genstar Director, and Mr. René Lamy, Governor of Société Générale de Belgique S.A., was elected to the Board. Mr. Boël had been a Genstar Director since 1969, and the company is grateful for his wise counsel and many contributions.

The Directors would also like to express their appreciation to more than 15,000 Genstar employees for their dedication and hard work during a very difficult year. The company has confidence in their ability to meet every challenge necessary to return Genstar to its traditional patterns of growth and profitability.

Angus MacNaughton

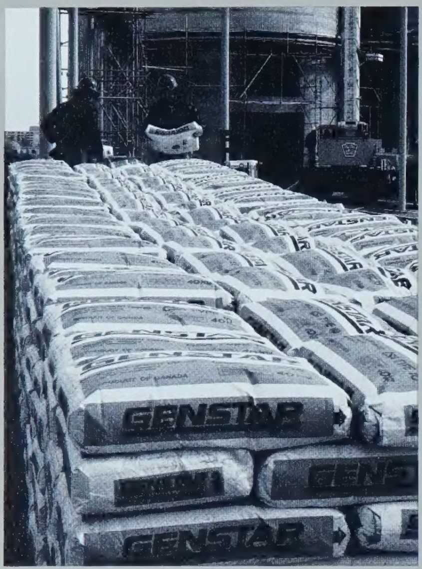
Ross J. Turner
Chairman

Angus A. MacNaughton
President

March 10, 1983

Genstar Operations

Building Materials and Services



Cement and Lime

	1982 (millions)	1981
Revenues	**$232.9**	$313.2
Operating Income	**$ 20.1**	$ 58.9

Products

Normal portland cement; oil well, high early-strength, masonry, sulphate-resistant, potash and other specialty cements. High-calcium and dolomitic quicklime and hydrated lime; various crushed limestone products.

Genstar is a leading manufacturer of cement in Canada and a major supplier in California, Oregon, and Nevada. The company also manufactures large quantities of lime products in the Western United States. In most cases, raw materials are supplied to these operations from company-owned quarries and deposits.

Cement Plants

Location:	Annual Capacity:*
British Columbia	1,000,000
Alberta	1,417,500
Saskatchewan	227,500
Manitoba	350,000
California	1,200,000
Total	4,195,000

Lime Plants

Location:	Annual Capacity:*
Arizona	640,000
California	124,000
Nevada	311,000
Utah	74,000
Virginia	40,000
Total	1,189,000

*Short tons

Concrete, Aggregates and Construction Services

	1982 (millions)	1981
Revenues	**$575.1**	$668.1
Operating Income	**$ 31.3**	$ 69.5

Products/Services

Classified sand, gravel, standard and lightweight aggregates; crushed stone and gypsum rock; ready-mix concrete; precast and prestressed structural and architectural concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; home repair products, including dry bagged concrete, mortar and blacktop mixes. Municipal construction services and real estate subdivision servicing (road construction, paving and installation of utilities).

In these businesses, Genstar is particularly active in the four western provinces of Canada, in Ontario, and the Mid-Atlantic region of the U.S. Aggregates and other raw materials are obtained from the company's own pits and quarries and, along with finished concrete products, are often used in projects undertaken by Genstar construction operations.

Plants	Canada:	U.S.:	Total:
Ready-Mix Concrete	21	15	36
Precast Concrete	9	—	9
Concrete Block	6	1	7
Concrete Pipe	7	—	7
Concrete Rail Ties	1	—	1
Asphalt & Bituminous Concrete	10	8	18
Dry Bagged Mixes	6	8	14
Aggregates*	26	15	41
Calcium Carbonate Products	—	1	1
Total	86	48	134

*Includes sand, gravel and crushed stone plants

Building Supplies

	1982 (millions)	1981
Revenues	**$ 473.9**	$ 575.3
Operating Income (loss)	**$ (42.8)**	$ (29.0

Products/Services

Gypsum wallboard; roofing products (asphalt shingles and rolls, liquid asphalt coatings, felt and paperboard); asphaltic adhesives; recycled rubber additives for asphalt paving; concrete admixtures. Wholesaling and distribution of construction materials to builders (through Genstar Supply Centers); sanitary landfilling and methane gas recovery; sludge disposal.

The corporation is a leading manufacturer of gypsum wallboard in Western Canada and throughout the United States, and ranks among the largest U.S. manufacturers of asphalt roofing products. Genstar is also becoming increasingly involved in a variety of waste management activities.

Gypsum Wallboard & Roofing Plants

Location:	Annual Capacity Wallboard:*	Roofing:**
Br. Columbia	160,000	—
Alberta	175,000	—
Saskatchewan	160,000	—
Arkansas	—	140,000
California	—	200,000
Colorado	200,000	—
Georgia	310,000	175,000
Illinois	—	330,000
Minnesota	—	120,000
Nevada	315,000	—
Texas	332,000	200,000
Total	1,652,000	1,165,000

*thousands of square feet (for 3-shift, 6⅔-day-per-week operations) **tons

(Roofing figures do not include production capacity for 20,000 tons of liquid compounds and 190,000 tons of paperboard and felt.)

Marine Services and Other Operations

	1982	(millions)	1981
Revenues	**$156.1**		$155.4
Operating Income	**$ 16.9**		$ 33.5

Services

Tug and barge transportation (primarily of forest products, such as lumber, logs, wood chips, pulp and paper, but also including limerock, aggregates, petroleum products, chemicals, trucks, containers, railway cars, and large heavy-lift modular cargo); shipbuilding; ship repairs; salvage; ferrying; berthing; lighterage; pollution control.

Genstar's large fleet of tugs and barges operates primarily along the Pacific Coast of North America. The company performs shipdocking services in both Western and Eastern Canada. Transport of heavy-lift modular cargo and specialized support services are provided on an international basis. Salvage operations are headquartered in Montreal. Genstar's shipyard in Vancouver has ship repair capabilities and builds vessels for both coastal and offshore markets.

Equipment

58 tugs, including 2 self-propelled train ships; 267 barges, including 6 submersible barges measuring 400 × 100 feet and 3 self-loading, self-dumping log barges ranging from 12,500 to 20,000 tons.

Other operations, not pictured, consist of a 50 percent interest in a company that, directly or through affiliates, manufactures and markets nitrogen-based chemicals, industrial gases, fertilizers and blasting agents in Canada and the U.S.

Land/Real Estate

Land and Real Estate Development

	1982	(millions)	1981
Revenues	**$280.3**		$470.3
Operating Income (loss)	**$ (55.9)**		$104.5

Products/Services

Single-family homes, duplexes and townhouses; condominium conversions; shopping centers; warehouses; industrial parks. Development of residential, commercial and industrial land.

Genstar is engaged in homebuilding and is a major developer of land and commercial properties. Primary areas of activity include the provinces of British Columbia, Alberta, Manitoba and Ontario in Canada, and the states of Washington, California, Arizona, Texas and Florida in the U.S.

Genstar Unit Sales/Housing

	1978	1979	1980	1981	1982
Canada	2,534	2,199	1,757	1,684	1,259
U.S.*	2,445	3,578	2,827	1,729	1,190
Total	4,979	5,777	4,584	3,413	2,449

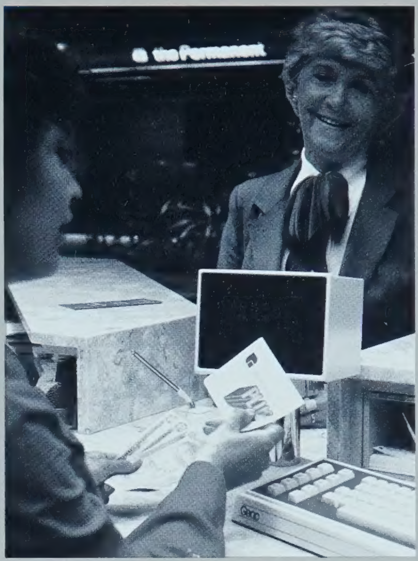
Genstar Acreage/Land Development**

	Owned	Optioned	Held in Partnership	Total
Canada	12,599	773	10,808	24,180
U.S.*	8,684	3,083	2,568	14,335
Total	21,283	3,856	13,376	38,515

*U.S. figures include residential units and acreage of joint ventures or partnerships formerly accounted for in Genstar's financial services business sector.

**At December 31, 1982. Figures exclude 8,463 serviced residential lots.

Financial Services



Financial Services

	1982	(millions)	1981
Revenues	**$98.9**		$67.3
Operating Income	**$84.5**		$52.4

Services

Financial intermediary operations; trust services; real estate brokerage; mortgage banking; title insurance and escrow services; capital equipment leveraged-lease brokerage; rental of electronic test and measurement equipment; container leasing; venture capital investment; thrift and loan operations.

A variety of financial service subsidiaries are consolidated within Genstar Financial Corporation, a newly formed institution with approximately $6.6 billion in assets. The company has nearly 200 savings, loan, trust, and real estate sales offices throughout Canada. Mortgage banking operations in the United States service a $4.4-billion portfolio of loans for investors. Title insurance and escrow services are provided in Northern California. Leveraged-lease brokerage activities and electronic equipment rentals are conducted throughout the U.S. and Canada. Container leasing is an international enterprise. Venture capital activities consist of equity investments in emerging high-technology companies in the United States.

Building Materials and Services

Genstar is a major manufacturer of cement, lime, concrete products, aggregates, roofing products and gypsum wallboard. It also engages in construction services and the marine transport of building supplies and raw materials.

Cement and Lime

Operating income from cement and lime manufacturing declined by nearly two-thirds in 1982, with the continued deterioration of demand and prices in U.S. markets accounting for most of the decrease.

At Genstar's Canadian cement plants, where earnings reached record levels the year before, income fell in direct proportion to a 25 percent drop in volume. These operations were able to maintain market share and improve profit margins, however, despite low demand in both domestic and export markets. Inventories were reduced by plant shutdowns of varying lengths, and the extensive modernization programs of recent years contributed to productivity when plants were operating. Stringent cost controls, better gross margins, reduced capital expenditures and lower working capital requirements also kept operating cash flow above that of 1981.

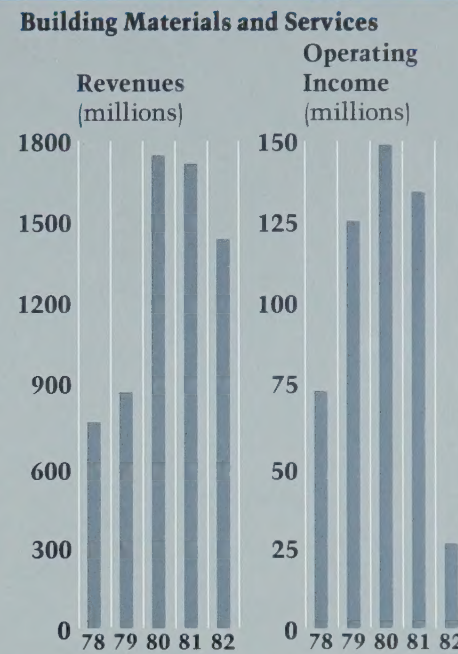
In the U.S., Genstar cement and lime operations incurred a loss in 1982. Cement volumes were down by nearly a third as sales for residential construction and public works projects continued to decline and commercial construction markets weakened after mid-year. Recent expansions of both Genstar's and competitors' plant capacities also intensified competition, and prices fell well below 1979 levels. The company was able to limit its losses by carefully controlling inventories through periodic plant closures, and by using the older of its two plants primarily to produce specialty cements while manufacturing higher-volume types at the new plant in Redding, California. That plant, completed in early 1981, is one of the most efficient in the United States. In addition to its significantly higher productivity, it consumes 30 percent less coal and 20 percent less electricity than the facility it replaced.

Sales of Genstar lime products fell by about 20 percent in 1982, primarily because of reduced demand for quicklime and hydrated lime in the depressed steel, copper, paper and glass industries. Sales of lime increased, however, for water and sewage treatment, air pollution control, soil stabilization and mining applications. As a consequence, prices held up reasonably well. By altering the composition of its dolomitic quicklime, Genstar was also able to penetrate the fiberglass manufacturing market for the first time.

As part of the effort to curtail expenses and improve cash flow, capital expenditures at cement and lime operations were reduced to $21.7 million in 1982, down from $58.6 million the year before. Of that

amount, approximately $13.4 million was spent on the recently expanded Alberta plant to complete grinding mills and storage facilities and on the quarry which provides that plant with limestone. In 1983, expenditures of only $9.8 million are planned, most of which will be used to complete the quarry expansion.

Operating income from cement and lime should improve in 1983. In Western Canada, some gains are expected in volumes of



cement sold for residential construction, although gross margins may decline because of government wage and price guidelines. In the U.S., cement operations should benefit from a new $5-billion federal road-building and repair program. In addition, the recent withdrawal of some competitors from key markets should help reduce pressure on prices. Genstar's increased penetration of new lime markets should also contribute to better performance. In particular, gains are forecast in sales of lime for air pollution control at coal-burning power plants and for soil stabilization at construction sites.

Concrete, Aggregates and Construction Services

Although U.S. and Eastern Canadian markets held up reasonably well, construction activity in Western Canada fell off sharply during 1982. Competition for low levels of available business, in turn, put intense pressure on prices, and Genstar profits were reduced substantially in most western provinces. The company also experienced losses in heavy construction activities.

As a result, operating income from concrete products, aggregates and construction services was less than half of 1981's record level.

The largest shortfalls in Canada occurred in what are traditionally two of Genstar's strongest markets. Reduced activity in Alberta oilfields and poor demand for British Columbia forest products seriously weakened the economies of both provinces, bringing about a steep decline in residential, commercial and industrial construction. In addition, poor conditions in Saskatchewan were made worse by a lengthy strike among building trades workers, and the Manitoba market was weak for the third straight year.

As conditions worsened, operations responded by substantially reducing overhead costs, working capital requirements and capital expenditures. Such adjustments, coupled with relatively good demand in a few product lines, permitted operations to remain profitable under very difficult circumstances.

Because of a large backlog of orders carried forward from 1981, revenues in Western Canada from precast concrete structural components approximated those of a year ago. Results included record sales of precast concrete railway ties. Sales of specialty packaged mixes also improved. Revenues from concrete blocks, ready-mix and aggregates, however, were lower than a year ago, and demand for concrete pipe fell substantially when unsold inventories of serviced lots brought private land development to a standstill.

Genstar's construction divisions had an equally difficult year.

Following the company's decision in late 1981 to withdraw from the volatile heavy construction business, losses were incurred in both the U.S. and Canada as projects were completed and operations closed with attendant costs. Of the two remaining projects, one will be completed before midyear; the second, a joint venture in which the company has a 15 percent interest, will extend into 1984.

Genstar will continue to be active in municipal construction work and subdivision servicing in four Western Canadian cities, and these enterprises were profitable in 1982. Income was lower than a year ago, however, as revenues from residential lot servicing fell in response to a 65 percent drop in single-family housing starts. Returns from municipal work were also reduced by cutbacks in government spending.

Markets of manufacturing and construction operations in the U.S. and Eastern Canada held up somewhat better than in the western provinces. As a result, these operations were able to match revenues and earnings of the previous year. Sales of packaged concrete and other dry mixes were up substantially, and Genstar expanded the capacity of its Ontario packaged materials plant in 1982. Revenues from calcium carbonate products approximated those of a year ago. Volumes of aggregates in the U.S. also matched last year's, although sales declined in Eastern Canada. Revenues from ready-mix and blacktop were somewhat lower than in 1981, but ready-mix profits rose because of reductions in the price of cement.

Capital expenditures by these operations in both the U.S. and Canada during 1982 amounted to $13.2 million, down significantly from $45.1 million the year be-

fore. The largest project is an $11-million expansion and automation program which will be completed in May at the company's quarry in Frederick, Maryland. Capital investments in 1983 are expected to total $12.9 million.

In addition to reducing capital outlays, Genstar in 1982 entered into a sale and leaseback transaction for 2,300 pieces of the company's mobile construction equipment which generated approximately $65 million in cash. The company also increased its efforts to dispose of marginal assets. Surplus gravel pits and plant sites were sold in Western Canada, and unprofitable masonry cement and commercial stone operations were closed in the United States.

In 1983, reasonably good gains in income are anticipated from concrete, aggregates and construction services. Performance should improve at most continuing operations, and the majority of losses from heavy construction activities have already been absorbed.

In the U.S., the modernized Frederick quarry is expected to contribute to profitability, and revenues should rise in response to increased federal outlays for highway construction. In addition, the company will benefit from a major local roadbuilding program in Maryland, a state where U.S. operations are particularly active. Because of cost reductions and production efficiencies achieved in 1982, income from manufacturing divisions in Western Canada will probably approximate last year's earnings, even though they entered 1983 with a smaller backlog of orders than a year ago. Western Canadian municipal and subdivision construction units will benefit as housing markets improve, but gains will not be substantial until large existing inventories of serviced lots are depleted.

Building Supplies

Genstar building supplies operations manufacture gypsum wallboard and asphalt roofing products, operate wholesale building supply outlets, and engage in some relatively new waste management activities. This segment of the company's building materials business is most directly influenced by conditions in U.S. residential construction markets, and substantial losses were incurred in both 1981 and 1982 as housing starts fell to their lowest levels in more than 35 years.

Demand for building supplies in the United States continued to decline during 1982. Although new home construction approximated that of the year before, the commercial, industrial, remodeling and home repair markets were significantly weaker. As a result, margins eroded because of competitive pressure on pricing and low utilization of plant capacity.

In response to these difficult conditions, Genstar sold or permanently closed several marginal U.S. operations as the year progressed. Included were one roofing plant, two gypsum wallboard plants, and 22 wholesale supply centers. The 17 remaining centers are now principally located in higher growth areas of the Southwestern United States. In addition, two other roofing plants have been temporarily closed until markets improve. Inventories have also been reduced by one-third, and salaried employment at the U.S. division is down more than 40 percent from last year's level.

These actions helped cut losses from on-going operations to one-half the level of 1981, despite the lower volumes. Total losses increased substantially, however, when reserves of about $30 million were established to cover the cost of plant and supply center closings.

Earnings were also under pressure at gypsum wallboard operations in Western Canada, where large declines in residential and commercial construction reduced volumes by about one-third. These plants did maintain market share and return a small profit, however, benefiting from stringent cost controls, improved production line speeds and other operating efficiencies.

For the first time since its formation in 1979, Genstar's waste management division produced a modest operating profit on slightly lower revenues. This was more than offset, however, by the write-off of development costs when a proposed chemical waste disposal venture was abandoned. Otherwise, only the returns from sludge disposal activities were below expectations. Profits significantly improved at both of the company's rubber recycling plants, and the sanitary landfill unit performed well. Genstar also completed construction of an innovative 1-megawatt power plant that produces energy from decomposing landfill waste. The plant burns methane gas in generators to produce electricity for sale to local utilities. At year-end, contracts were received to build two more of these facilities.

Capital expenditures of building supplies operations in 1982 totaled $20.4 million, compared to $29.3 million a year ago. Projects that reduced production costs or improved the competitive position of U.S. operations received priority. A new "co-generation" system, for instance, has substantially lowered energy costs at a major gypsum plant by generating electricity with the same heat used to dry wallboard. The largest investment was the purchase of a glass-mat manufacturing machine to serve company roofing plants in the Central United States. Shingles made from fiberglass mats coated with asphalt are capturing an increasing share of roofing markets. They also require less asphalt to manufacture than conventional felt-mat shingles, significantly reducing the cost of raw materials. Genstar recently added to its line of glass-mat shingles, and the new machine will increase glass-mat production capacity to over 50 million pounds annually, up from about 14

million at present. In 1983, approximately $17.2 million in capital expenditures are planned, about half of which are for the glass-mat facility.

With the exception of the waste management division, where performance should continue to improve in 1983, the outlook for building supplies operations depends almost entirely on the rate of recovery in key housing markets. While some improvement is anticipated in Western Canada, volumes and income of Canadian wallboard plants may rise only slightly because of a continuing decline in commercial construction. In the U.S., however, roofing and wallboard operations are expecting a gradual turnaround if housing markets rebound as anticipated.

The remaining U.S. plants and supply centers are cost-effective operations that are strategically located in areas which should experience above-average growth as housing markets gain strength. At year-end, some signs of recovery were already apparent. Inventories of new homes were low, construction money became more readily available, and buyers were re-entering the marketplace as declining mortgage rates made housing more affordable. Late in the year and early in 1983, those factors caused seasonally adjusted rates of new housing starts and building permits to rise significantly.

Genstar believes this positive trend will continue through at least a portion of the coming year. With even limited growth, the cost reduction and productivity improvement programs of 1982 should substantially reduce or eliminate losses from U.S. operations. More optimistically, if mortgage loans remain available at reasonable rates for most of the year and higher unemployment does not dampen homebuyers' confidence, the demand for building supplies could increase significantly. This, coupled with lower production costs, would return these operations to profitability.

Marine Services and Other Operations

Although revenues from marine services increased slightly in 1982, a less profitable mix of business reduced margins, and operating income was well below last year's record level.

Genstar's largest marine operation, its Pacific Coast fleet of tugs and barges, was adversely affected by a continuing decline in shipments of lumber, logs and wood chips for the depressed forest products industry. This is the fleet's principal source of business, and volumes were even below those of 1981 when there was a lengthy strike by forest products workers in British Columbia. Low levels of residential, commercial and industrial construction also significantly reduced shipments of limerock to West Coast cement plants. Although there was greater demand for marine services in the construction of new port facilities, the increase was not sufficient to compensate for shortfalls in primary markets. As a consequence, utilization of equipment was considerably lower than a year ago, and operating profits fell because of the relatively high fixed costs of fleet operations.

In contrast, the shipyard at Vancouver had an excellent year. High volumes of new ship construction produced record revenues and earnings despite much smaller returns from ship repairs. Shipbuilding yields lower margins than repairs, however, and income did not increase as much as revenues. Six vessels were delivered during the year, and substantial progress was made on a large ice-breaking supply ship that will support oil exploration activities in the Arctic. Made from thick plates of steel, the 260-foot-long vessel is being built under a $32-million contract and will be delivered before mid-year.

At the marine division in Eastern Canada, there were relatively few salvage opportunities for the second year in a row. Two major jobs were completed in 1982, but both were bid under highly competitive conditions that reduced margins and earnings.

Demand for marine equipment in international markets was also low as declining petroleum prices caused a decrease in offshore oil exploration and production. In response, some vessels that had been operating in the Gulf of Mexico were relocated to more promising sites, and greater emphasis was placed on obtaining contracts to transport large, heavy-lift cargo. Major projects included moving a drilling rig from the Amazon Basin to Australia and transporting pipelaying equipment between Australia and Europe. These contracts resulted in higher revenues, but costs of fuel, port fees and other third-party expenses were also higher than when work is performed on a time charter basis, as was generally the case in 1981. Although these projects made good contributions to earnings, the overall decrease in international marine activity kept equipment utilization and operating income below last year's level.

Capital expenditures during the year amounted to $3.5 million, down from $5.7 million in 1981. The only major project completed in 1982 was installation of heavy-lift cranes on the largest of Genstar's three self-loading/self-dumping log barges. Increased lifting capacity will permit faster, more efficient loading and will enable the vessel to handle the 50-ton bundles of logs that are now common in the industry. Engines and drives were also purchased for a new ship-docking tug which Genstar will use to service expanded coal port facilities in British Columbia. Capital expendi-

tures of $5.4 million are anticipated in 1983.

During the coming year, there should be some improvement in operating income from marine services, although earnings are not expected to return to the record level of 1981. West Coast tug and barge operations should benefit from increasing shipments of lumber and logs as the residential construction industry gains strength. Only marginal improvement is expected in other segments of the forest products industry, however, and low levels of commercial and industrial construction will continue to depress shipments of limerock. Gains also will be partially offset by lower revenues and earnings from international marine operations, where limited levels of business will again make competitive conditions difficult throughout the year. Shipbuilding revenues are expected to remain high, however, and shipyard margins should rise as improving economic conditions stimulate other types of marine activity, increasing the volume of ship repairs.

Other Operations consist of a half-interest in Nitrochem Inc., a Canadian corporation that manufactures nitrogen-based chemicals and industrial gases and which has interests in other companies that produce mixed fertilizers and explosives. In 1982, poor economic conditions weakened key industrial, mining and agricultural markets in both the U.S. and Canada, and costs of natural gas and other feedstocks escalated more than sales prices. A small loss was experienced as a result. Assuming reasonable improvement in the economy, rising demand in all major markets should return Nitrochem to profitability in 1983.

Land and Real Estate Development

Genstar is a homebuilder and major developer of land, commercial real estate and industrial property in both Canada and the United States.

For two consecutive years, high interest rates and a lack of consumer confidence in the economy have kept North American housing sales at their lowest levels since the Second World War.

In 1981, the shortfall in Genstar's U.S. markets was offset by near-record returns from Canadian housing and land development operations. Markets in Canada softened significantly in 1982, however, when interest rates and unemployment reached postwar highs. As a consequence, total Genstar revenues from land and real estate development fell by 40 percent, and the company suffered a substantial loss in what has traditionally been one of its most profitable businesses.

The loss resulted almost entirely from homebuilding projects in the Western United States, including more than 60 joint ventures for which the company had provided equity financing. Because Genstar took over some of these projects when partners were unable to meet financial commitments, all joint ventures are now accounted for as part of the company's land and real estate business sector. In the past, they had been included in the financial services sector, and prior years' revenues and earnings have been restated to reflect this change.

During 1982, Genstar homebuilding operations in the U.S. and Canada sold 2,449 residential units, down 28 percent from 1981 and 47 percent from 1980.

Canadian housing operations experienced a small loss when sales dropped sharply in Alberta, where depressed conditions in the oil industry spread through the entire economy. To reduce expenses, the prefabricated housing components factory was closed and all Canadian homebuilding operations were consolidated within one division, permitting a significant reduction in personnel.

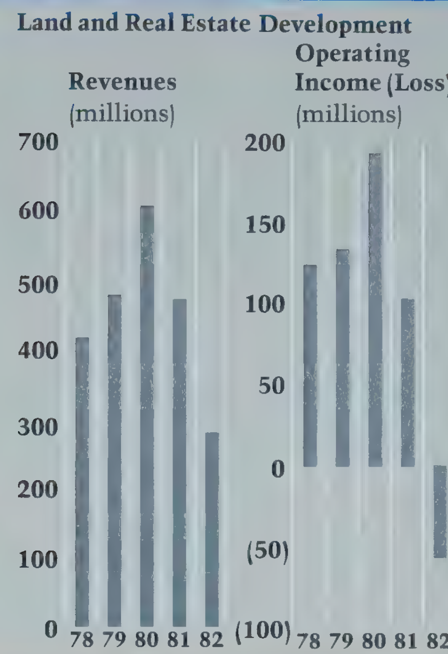
Genstar's housing sales fell even more dramatically in the United States, largely because of reduced activity at joint venture developments. Low volumes, high carrying costs of inventories of unsold homes, and the expense of providing buyers with low-interest mortgages contributed to losses significantly higher than in 1981. The only profitable market was in Texas, where the economy remained relatively strong. California operations were the most severely affected, and three housing divisions in that state were combined into a single unit with attendant reductions in staff.

High priority was also given to reducing inventories. At year-end, wholly-owned housing operations in both the U.S. and Canada had 252 residential units completed or under construction and available for sale, down 60 percent from 650 units at the beginning of the year. Joint ventures had 670 completed units for sale at the end of 1982, most of which are condominium conversions. This was a small reduction from 713 a year earlier.

Genstar's land development operations were profitable in 1982, but at much lower levels than the year before. In Canada, revenues fell by more than one-third as residential, commercial and industrial construction declined significantly in all major markets. Conditions were no less difficult in the United States, and sales of Genstar land were reduced by 50 percent despite improved returns in Texas.

At year-end, in both the U.S. and Canada, the company owned, had options on or held in partnership 38,515 acres of land and 8,463 serviced lots, compared to 46,830 acres and 7,843 lots at the end of 1981.

For sale or retention in its own investment portfolio, Genstar also develops commercial and industrial properties. Operating income from Canadian develop-



ments rose significantly in 1982, and earnings from the development of shopping centers and industrial parks in the U.S. approached 1981's record level. Gains were offset somewhat, however, by losses on joint-venture commercial developments in the U.S. which were previously accounted for in the financial services business sector.

In 1983, Genstar believes its land and real estate operations will return to profitability. The degree of improvement will depend on the continuation of positive trends that became apparent in the United States at year-end and in early 1983, particularly the stabilization of interest rates at more affordable levels and the return of consumer confidence in the economy.

Regardless of the pace of the recovery, Genstar will continue to exercise caution in its homebuilding activities. Wholly-owned housing inventories are now at levels consistent with market demand, and the past year's results included reserves of more than $60 million which are expected to cover anticipated losses arising from joint ventures and reductions in value of real estate assets. In 1983, Genstar will continue to reduce joint venture investments and will start new homes primarily on a presold basis.

Land development activity will also be limited until the oversupply of lots in the marketplace is absorbed. Assuming further improvement in the economy, Genstar believes earnings from Canadian land development projects should at least approximate those of 1982, and returns from U.S. operations should rise.

Financial Services

Genstar Financial Corporation, with assets of $6.6 billion, is a major deposit and lending institution, performs a wide range of trust services, and engages in venture capital investment, mortgage banking, real estate brokerage, equipment leasing and other financial services.

Operating income from financial services rose 60 percent in 1982, reflecting not only improved performance by several operations, but also the relative stability of others under generally poor economic conditions.

As a means of strengthening this business sector, the company consolidated most financial service activities late in the year within a newly formed subsidiary, Genstar Financial Corporation.

Genstar Financial Corporation

Assets	(millions)
Cash and Marketable Securities	$1,392
Mortgages and Loans	4,568
Other	681
	$6,641
Liabilities	
Demand Deposits	$1,713
Term Deposits	3,975
Other	538
	6,226
Shareholder's Equity	415
	$6,641

With its combined assets and good earnings growth, it is structured to raise funds more easily in various capital markets to finance its own activities. Such funds, coupled with direct contributions of capital from Genstar when needed, should make ample resources available to support this promising business.

The largest operation within the new subsidiary is Canada Permanent Mortgage Corporation, which Genstar acquired in 1981 for $288 million.

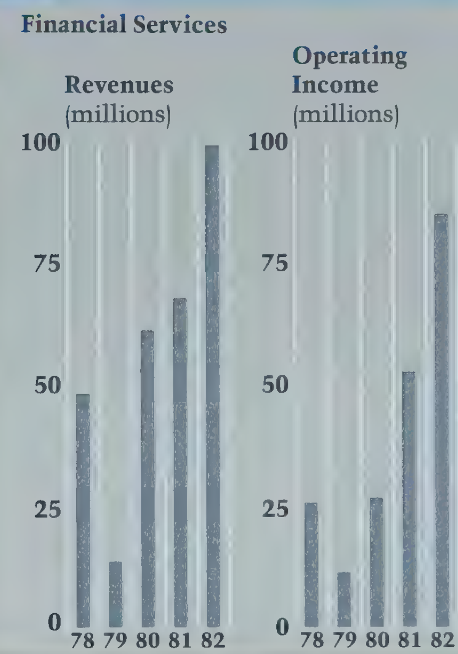
The Permanent has nearly 200 offices across Canada and also conducts business in Great Britain. As a financial intermediary, it accepts demand and term deposits from the public and invests them in residential mortgages, personal and commercial loans, and money market securities. It also offers a full range of fiduciary services through its trust division, and is one of Canada's leading real estate brokerage firms.

The Permanent's income from operations rose appreciably in 1982. Returns from the financial intermediary services division, in particular, showed steady improvement as the year progressed, and earnings also benefited from the effect of discounting the loan portfolio at the time of acquisition by Genstar.

The intermediary division presently manages more than 400,000 savings and checking accounts and over 600,000 term deposits and registered savings plans. At year-end, such deposits and other liabilities were being used to fund a portfolio of loans and other assets totaling $5.9 billion, up 4.5 percent from 1981.

Income from intermediary activities is determined by the average margin or spread between interest paid on liabilities and interest earned on assets. Along with many of its competitors, The Permanent's spreads had been adversely affected by rapidly rising interest rates because of a mismatch between types and maturities of assets and liabilities.

During 1982, through improved matching of investments and loans with deposits of similar maturities, the company was successful in reducing its sensitivity to rate changes, thus ensuring reasonable margins on new fixed-rate business. The overall match within the portfolio was also improved by reducing the total of fixed-rate mortgages by $344 million and reinvesting those funds in variable-rate assets, generally for short terms. At year-



end, assets with interest rates fixed for periods longer than one year amounted to \$4.3 billion, of which \$2.2 billion will mature in 1983.

These actions reduced the excess of variable-rate deposits over variable-rate assets from \$620 million at the beginning of 1982 to \$59 million at the end of the year. As a result, The Permanent's liquidity improved significantly and is now well above regulatory requirements, a prudent position during times of uncertain economic conditions. Average interest margins also improved as the year progressed.

The Permanent's trust division, which earns fees and commissions from a wide range of fiduciary services, also had an encouraging year. For individuals, the company engages in investment management, estate planning, and the administration of estates and trusts. For corporate clients, it acts as stock transfer agent, registrar and bond trustee. It also serves as investment manager and custodian of pension and other employee benefit funds. During the year, installation of a new, computerized system was completed that will permit more efficient management of pension fund assets.

The Permanent's real estate brokerage division experienced a loss in 1982 as high interest rates and a sluggish economy seriously weakened real estate markets in Canada. To reduce expenses several unprofitable sales offices were closed or consolidated, and losses diminished late in the year as sales began to return to more normal levels.

In 1982, substantial new investments were made in

income producing real estate, which generated record revenues and earnings. At year-end, The Permanent's portfolio of commercial properties had a book value of $118 million, up from $34 million at the end of 1981.

In the United States, Genstar's financial service operations had an outstanding year, and operating income rose by nearly a third from the prior year's record level.

Large gains were made in rentals of electronic test and measurement equipment, primarily as a result of higher expenditures for defense and for research and development. Approximately $25 million was invested in new equipment during the year, and assets at the end of 1982 totaled more than $55 million, up 12 percent from a year ago.

There was an equally significant increase in earnings from mortgage banking activities. In this business, income is derived primarily by purchasing mortgages from other lenders for resale to institutional investors and by servicing a portfolio of such loans for the company's clients. At year-end, that portfolio totaled approximately $4.4 billion, up slightly from 1981. This operation expanded during the year by purchasing the remaining equity in American Funding Limited, a major second mortgage company in which it had owned half-interest since 1980.

Sales of venture capital investments also continued to generate outstanding profits. The largest transactions were sales through initial public offerings of a portion of Genstar's holdings in Dionex Corporation and Quantum Corporation. These companies are typical of the promising young high-technology firms in which Genstar purchases and holds equity positions for long-term appreciation. At year-end, the company's portfolio included holdings in 53 such companies, among them large interests in Activision, Inc., and Apollo Computer, Inc., two firms which have been enjoying particularly rapid growth.

Genstar's container leasing operation completed its first full year of business in 1982 and expanded its fleet of containers to more than 20,000 20-foot-equivalent units. Although world trade markets were severely depressed, the new operation contributed significantly to earnings through the sale of tax benefits associated with the purchase of these containers. The company also succeeded in expanding its customer base. With offices presently on three continents, it is now providing leased containers to the shipping industry on a worldwide basis.

It was not a good year for all U.S. financial service operations, but even those faced with difficult market conditions performed well under the circumstances. Genstar's leveraged-lease brokerage company, because of excess capacity and an oversupply of capital equipment in the U.S., arranged lease financing for only about $125 million in plants and equipment, down from approximately $300 million a year ago. Despite the shortfall in business, it essentially operated on a break-even basis. Real estate markets were equally depressed, yet cost-reduction efforts permitted a return to profitability by title insurance and escrow operations.

The company divested its California consumer finance subsidiary during the year, but retains its Nevada thrift and loan operation. The latter primarily makes real estate loans and reported a modest profit in 1982.

In 1983, further gains are anticipated in earnings from financial service activities. Strong performances are again expected from U.S. operations, and returns from Canada Permanent should continue to improve. Better matches in maturities of assets and liabilities should yield more satisfactory interest margins for The Permanent's intermediary division, and the new pension fund management system should increase fee income from trust services. The Permanent also plans to further expand its investments in income producing property, and the real estate brokerage division will benefit from cost reduction measures and rising revenues as housing markets improve.

Financial Review

GENSTAR

Financial Summary

For the five years ended December 31, 1982 (millions of Canadian dollars)	**1982**	1981	1980 (restated)	1979	1978
Revenues	**$1,760.2**	$2,145.9	$2,310.4	$1,264.6	$1,143.0
Operating income	**24.5**	242.4	335.5	255.3	204.8
Income (Loss) before income taxes	**(184.7)**	72.4	197.2	190.1	154.9
Net income (loss)	**(84.3)**	93.8	157.9	126.5	87.9
Per common share					
Net income (loss)					
Canadian method					
Basic	**$ (3.36)**	$ 2.40	$ 4.92	$ 4.31	$ 3.26
Fully diluted	**(3.36)**	2.34	4.48	4.06	3.09
United States method					
Primary	**(3.36)**	2.37	4.54	4.26	3.24
Fully diluted	**(3.36)**	2.34	4.48	4.08	3.12
Dividends	**0.90**	1.80	1.65	1.25	0.81
Book value	**19.83**	24.12	23.59	19.20	16.25
Performance measurement					
Return on net assets (pre-tax)	**1.1%**	9.9%	16.1%	17.9%*	16.5%
Return on common equity	**(16.8%)**	9.9%	19.7%	22.3%	19.4%
Capitalization ratios					
Total debt to equity	**62:38**	57:43	49:51	62:38	49:51
Long-term debt to equity	**48:52**	40:60	40:60	53:47	32:68
Capitalization					
Total assets	**$2,660.3**	$2,868.2	$2,467.5	$2,401.4	$1,492.7
Deferred income taxes	**82.1**	167.8	181.3	183.9	115.3
Long-term debt	**773.6**	657.6	639.6	729.4	262.5
Redeemable preferred shares	**120.0**	120.0	120.0	120.0	120.0
Convertible redeemable preferred shares	**106.9**	111.1	113.5	8.6	10.3
Common shares and contributed surplus	**296.8**	291.7	285.1	186.1	180.2
Retained earnings	**316.8**	448.0	429.4	341.4	257.2
Other statistics (millions except employees)					
Working capital	**$ 91.7**	$ 136.7	$ 404.9	$ 305.0	$ 268.6
Funds from (Required by) operations	**(106.1)**	145.3	223.6	167.5	153.2
Capital expenditures	**66.2**	147.5	172.2	106.1	52.8
Common shares outstanding					
Actual	**30.9**	30.6	30.2	27.4	26.8
Average	**30.7**	30.5	28.5	27.3	26.4
Average number of employees	**17,788**	20,225	17,525	19,850	10,428

*Excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

Consolidated Highlights

A loss of $84.3 million ($3.36 per common share) was recorded in 1982, compared to restated income of $93.8 million ($2.40 per common share) in 1981 and $157.9 million ($4.92 per common share) in 1980. Per share amounts are based on average outstanding common shares of 30.7 million in 1982, 30.5 million in 1981 and 28.5 million in 1980. Prior years' amounts have been restated for a change in foreign exchange translation accounting described in Note 1 to the consolidated financial statements.

Following are highlights of 1982 operating results in comparison to 1981 and 1980:

- 1982 revenues of $1.8 billion were 18% lower than 1981. All industrial categories, except Financial Services and Marine Services, were adversely affected by the general recession and reported significant reductions in revenues. 1981 revenues of $2.1 billion were 7% lower than the record level of 1980, as increased Canadian revenues were more than offset by the initial effects of the recession on United States revenues.

- Gross profit for 1982 was 17% compared to 27% in the two preceding years. The decrease reflects depressed operating conditions in 1982. Major gross profit reductions from 1981 were as follows:
  - $95 million of costs associated with plant closings and write-down of certain land holdings and joint venture investments. These costs reduced 1982 gross profit by 5.4%.
  - $105 million because of the reduced sales volume.
  - $80 million because of the reduced gross profit percentage.

  1981 gross profit from operations decreased $55 million from 1980 as a result of lower revenues.

- Cost control programs and the streamlining of operations helped to offset lower 1982 gross profit as selling, general and administrative expenses were reduced by $54 million, or nearly 21%, from the preceding year and 9% from 1980. The 1982 reduction was achieved even after charges of $15 million associated with employee terminations and plant closings. The 15% increase in 1981 was attributable to increased personnel costs and the general effects of inflation.

- Financing costs increased 23% during both 1982 and 1981 because of higher average variable rate borrowings in both years and increased interest rates in 1981.

- Operations required $106 million of funds for 1982 losses after generating $145 million in 1981 and $224 million in 1980. However, in 1982 operating working capital was reduced by $210 million resulting in a net generation of investment funds of $154 million compared to $79 million in 1981 and $181 million in 1980.

- Cash dividends of $47 million, including $19 million for preferred shares, were 38% lower than 1981 and 27% lower than 1980. Capital expenditures were also lower at $66 million in 1982, compared to $148 million in 1981 and $172 million in 1980.

- The total debt-to-equity ratio increased from 57:43 in 1981 to 62:38 in 1982. The increase in 1982 reflects the combined effects of $60 million of additional debt and the 1982 loss.

Operations

The following discussion of major factors affecting the operating income of each industrial category during the three years ended December 31, 1982 should be read in conjunction with "Results by Industrial Category" included on pages 30 and 31 of this report.

Cement and Lime

Sales Volumes	**1982**	1981	1980
	(thousands of tons)		
Cement			
Canada—Domestic	**1,292**	1,770	1,893
—Export	**128**	128	351
	1,420	1,898	2,244
United States			
—Western	**552**	804	921
—Eastern (sold in late 1980)	**—**	—	838
	552	804	1,759
Total	**1,972**	2,702	4,003
Lime Products			
United States	**526**	666	657
Production Capacity Utilization			
Cement—Canada	**46%**	62%	73%
—United States	**62**	64	102
Lime Products	**41**	52	51

Total 1982 volumes were 27% lower and 35% lower than 1981 and 1980 levels, respectively. Lower sales volumes reduced capacity utilization at Canadian cement facilities and United States lime facilities to low levels, particularly in 1982. Periodic shut-downs were required in 1982 to more closely match production and demand. The low utilization levels and continued depressed market demand and prices resulted in approximately $15 million of charges for reduced plant and other asset values. These write-

downs reduced 1982 gross margin to 29.3% compared to 34.0% in 1981. The lower 1980 gross margin of 28.3% was the result of the low-margin plants in the eastern United States, which were sold late in that year.

Operating income decreased from $50.8 million in 1980 and $58.9 million in 1981 to $20.1 million in 1982. In Canada, higher gross margin from the efficient productive capacity at Edmonton and Vancouver was more than offset by reduced volume, resulting in a 22% reduction in operating income.

Concrete, Aggregates and Construction Services

Sales Volume of Major Products	1982	1981	1980
	(millions)		
Concrete (cubic yards)	**1.6**	2.2	2.8
Aggregates (tons)	**20.6**	24.4	25.2
Concrete Blocks (standard units)	**14.3**	21.4	23.8

Revenues decreased 14% in 1982, because of reduced construction activity particularly in Western Canada. Nearly one half of this reduction was due to the reduced sales to other Genstar divisions. The significant volume decrease in 1982 of major products, as indicated in the table above, was partially offset by price increases for all products and improved sales of packaged materials. 1981 revenues increased 10% from 1980 as higher selling prices and higher precast concrete activity more than offset the effects of lower unit volumes of major products.

Gross profit decreased to 16% in 1982 compared to 23% in 1981 and 20% in 1980. During 1982, U.S. operations experienced a modest decline in gross profit and in Canada gross profit was reduced by cost increases, competitive bidding on municipal construction contracts and losses from heavy construction operations. Included in the 1982 cost increase was lease expense related to a mobile equipment sale and leaseback transaction, which was partially offset by lower depreciation expense. Increased selling prices, asset sales and cost control and reduction programs contributed to most of the gross profit improvement in 1981.

Operating income in 1982 decreased 55% from 1981, principally because of lower margins. Cost controls were effective in reducing overhead expenses by nearly $10 million and depreciation was $9 million lower. These expense reductions were not sufficient to offset the decrease in gross profit.

Heavy construction operations incurred operating losses of $10 million during 1982, after generating modest operating income in 1981 and operating losses in 1980. No new contracts are being undertaken in these low margin operations. Construction services operations, which build municipal improvements, generated marginal operating income during 1982 after generating excellent returns in 1981 and 1980. Reduced volume of real estate activity and competitive bidding on municipal projects resulted in the difficult operating environment in 1982.

A reduction of 1,300 employees, 21% of the work force, occurred during 1982 as a result of the completion of large projects, the closing of operations and reduced volume of business.

Building Supplies

Sales Volumes of Major Products	1982	1981	1980
Gypsum products (billions of square feet)	**1.2**	1.4	1.6
Roofing (thousands of tons)	**657**	698	838
Number of wholesale supply centers at year-end	**17**	39	51
Production Capacity Utilization			
Gypsum products	**64%**	70%	80%
Roofing	**50**	49	58

Revenues of $474 million in 1982 declined by 18% and 22% from 1981 and 1980, respectively, as a result of the depressed construction market and reductions in productive capacity. In the United States, Genstar sold, mothballed or closed several unprofitable facilities, including five plants and 22 wholesale supply centers.

Low levels of production and competitive pricing eroded gross margins from 13.4% in 1980 and 8.1% in 1981 to 4.2% in 1982, the latter figure including reserves of $20 million for costs of closing excess facilities. Selling, general and administrative expenses declined by $13 million in comparison to 1981. Nevertheless, an operating loss of $43 million was recorded, $14 million higher than 1981. Excluding reserves, the operating loss in 1982 was less than half the level in 1981. In 1980, the division generated operating income of $16 million as volumes and prices were sufficient to exceed the division's break-even point.

Canadian gypsum wallboard sales volume declined by 40% from 1981's level as a result of large reductions in residential and commercial construction. These operations contributed a small operating profit in 1982, down significantly from 1981 and 1980 levels.

Waste disposal and energy recovery operations recorded small operating losses in each year of the 1980-82 period, however the current year included provisions to reduce to market value

certain facilities held for sale. Operating income from flyash and sanitary landfill operations continued to improve.

Marine Services and Other Operations
Revenue growth in 1982 resulted primarily from the unusually large amount of new construction work in the shipyard division. Utilization of the Canadian tug and barge fleet was at low levels in 1982 due to the severe downturn in the forest products industry, a primary source of business. Equipment utilization was at a high level in 1980 and 1981 except for a six-week strike in the forest products industry in 1981.

Although revenues from marine operations continued to grow, operating income decreased by 41.9%, to $17.5 million after remaining constant from 1980 to 1981. Gross margin percentage, stable in 1980 and 1981 at 32%, declined significantly to 21% in 1982 because a larger proportion of shipyard work was in low margin new construction.

Utilization of equipment in international marine operations was also low in 1982 and profitability declined with reductions in oil exploration activity in the Gulf of Mexico that contributed to 1981 income. Marine salvage operations produced a normal operating income contribution in 1982 after an above average 1981.

Other operations comprise a chemical and mixed fertilizer joint venture formed in the first quarter of 1981 from operations wholly owned prior to that time. This business operated at a small loss in 1982 compared to income of $3.4 million in 1981 and $3.9 million in 1980.

Land and Real Estate Development

Sales Volumes	1982	1981	1980
Single family, duplex and townhouse units			
Genstar Divisions			
Canada	**1,259**	1,684	1,757
United States	**633**	699	954
Joint Ventures			
United States	**557**	1,030	1,873
	2,449	3,413	4,584
Residential building lots			
Genstar Divisions			
Canada	**510**	1,320	1,045
United States	**364**	257	595
Joint Ventures			
Canada	**488**	893	1,396
United States	**22**	133	80
	1,384	2,603	3,116

Sales Volumes	1982	1981	1980
Land (acres)			
Genstar Divisions			
Canada	**529**	2,024	892
United States	**327**	824	1,171
Joint Ventures			
Canada	**217**	614	79
United States	**21**	8	17
	1,094	3,470	2,159

1982 revenues decreased 40% on volume reductions of 28% for housing, 47% for lots and 68% for acreage. During the year, housing operations concentrated on selling inventories of completed houses and serviced land, while new construction was limited to multi-family projects under contract and pre-sold single-family units. The volume of land sales remained depressed in the United States and declined significantly in Canada during 1982 as homebuilders attempted to reduce their existing housing and land inventories. 1981 revenues include a large acreage sale for a government transportation and utility corridor.

In 1981 revenues decreased 22% from the 1980 record level. During 1981 emphasis was placed on raw land sales in Canada to compensate for the reduction in land sales in the U.S. and housing sales in both countries.

Gross profit in 1981 was 36% and in 1980 was 41%. A gross profit break-even during 1982 includes reserves of $63 million to reduce the carrying value of certain land holdings and real estate joint ventures. Excluding the reserves, gross profit percentage was still only half the 1981 level because of a combination of lower land sales, which traditionally generate high profit margins, and the high cost of financing programs used as a marketing aid to sell housing inventory. The decline in gross profit margin in 1981 from 1980 reflected the decline in economic conditions during the year.

Selling, general and administrative expenses were cut by $11 million (18%) in 1982, moderating somewhat the decline in gross profit. Nevertheless, an operating loss of $56 million was recorded in 1982, compared to operating income of $105 million in 1981 and $192 million in 1980. Before the previously mentioned reserves, this industrial category operated at a small profit in 1982 as losses in the United States were offset by income from Canadian operations. The company's operations, particularly in California, have been curtailed until market conditions improve. The decrease in 1981 operating income compared to 1980 was primarily caused by lower revenues and losses in U.S. housing operations.

Financial Services

Financial services include primarily non-consolidated operations where revenues comprise Genstar's proportionate equity basis share of subsidiaries' net income. Operating income of the financial services category was $84.5 million in 1982, compared to $52.4 million in 1981 and $26.5 million in 1980. The improved 1982 contribution of financial services activities confirms that these operations will contribute good returns even during periods of severely depressed economic conditions.

The investment in high technology start-up companies has been a consistent source of income on public sale or merger of these companies. Operating income of $25 million from venture capital operations in 1982 was down slightly from the preceding year, as generally uncertain stock market conditions during the middle of the year delayed the sale of certain matured investments. Two promising investments, Quantum Corporation and Dionex Corporation, did go public in December, however.

Canada Permanent Mortgage Corporation has continued to work towards improving the returns on its $6 billion of assets. Without reasonable matching of fixed interest rate assets and liabilities and their maturities and matching of variable rate assets and liabilities, CPMC net interest income may fluctuate dramatically as market rates change and as fixed rate items mature. A mismatch could produce exceptionally high income levels, but CPMC's experience during the past several years demonstrated the opposite effect. The following table demonstrates the progress which CPMC has made in reducing the mismatches:

Net Asset Analysis	**1982**	1981	1980
	(millions of dollars)		
Fixed rate assets in excess of fixed rate liabilities	**$214**	$807	$1,030
Variable rate liabilities in excess of variable rate assets	**59**	620	822

The capability to develop a large portfolio with a consistent market rate return was recognized in accounting for the CPMC acquisition. The unfavorable future net interest cost implicit in the mismatch at the date of acquisition of CPMC was deducted to achieve the "fair value" of the financial assets and liabilities and assigned to intangible assets associated with CPMC. In 1982 and 1981, Genstar's equity income from CPMC has been increased by $37.5 million and $16.7 million, respectively, by removing the unfavorable interest costs from CPMC's results. Other acquisition adjustments, including reduction of marketable security gains, reduced equity income by $11.5 million in 1982 and $13.3 million in 1981.

The actual reduction in interest sensitivity is reflected in CPMC's 1982 equity income, before securities gains, of $7.4 million as opposed to a comparable post-acquisition break-even in 1981. Additional details of CPMC equity income and acquisition accounting are included in Note 16 to the consolidated financial statements.

Mortgage banking and instrument rental operations produced increased operating income in 1980, 1981 and 1982. Container leasing was profitable in 1982, the first full year of operation, as a result of the sale of tax benefits generated from its growing container fleet investment. Operating income includes a loss of approximately $3.1 million on the sale of California thrift and loan operations.

The financial position and results from operations of the financial services subsidiaries which recently were reorganized under Genstar Financial Corporation are summarized in Note 6 to the consolidated financial statements.

Financing Costs

Interest expense	**1982**	1981	1980
	(millions of dollars)		
Long-term debt	**92**	86	76
Short-term debt	**117**	84	62
	$209	$170	$138

Interest expense increased by 23% in both 1982 and 1981. The increase in 1982 consisted of $6 million for additional long-term debt and $33 million for increased short-term debt financed at bank prime and commercial paper rates. Between 1980 and 1982, financing costs increased by $71 million, reflecting higher interest rates, the cost of additional investments in working capital, financing of a major acquisition and assumption of control of several joint ventures.

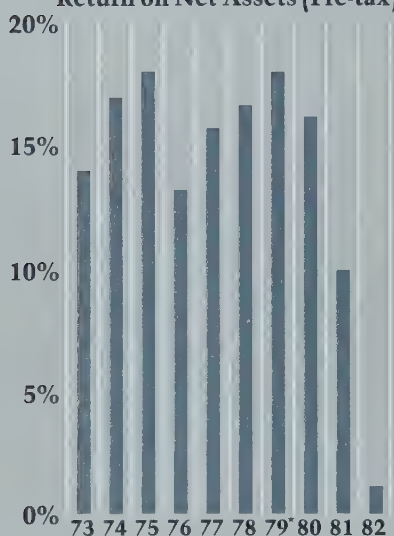
At December 31, 1982, total Genstar borrowings were $1,366 million compared to $1,306 million at the end of 1981. Of these amounts, variable rate debt was $843 million in 1982 and $756 million in 1981, including $142 million in 1982 resulting from the consolidation of several joint ventures for which Genstar has assumed control. Interest expense in 1982 includes $10 million related to these joint ventures, representing 26% of the year's increased financing costs. The

balance of the increase was the result of higher average borrowings in 1982.

Performance Measurement

The company places great emphasis on the importance of measuring operating performance in order to help determine the business investments which will ensure a strong and viable future. Both internally and externally, various measures of performance have been used to compare efficiency and profitability between divisions of Genstar and between Genstar and its competition. In prior years, the measure of performance used externally has been RONA—return on net assets—an after-tax measure of operating income as a ratio of capital employed.

Return on Net Assets (Pre-tax)



*excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

Losses at both the divisional and consolidated levels have served to de-emphasize performance measurement in 1982, as the difficult economic conditions and the emphasis on generating cash superceded the traditional priority of improving income performance. Also, tax recoveries tend to distort the meaning of RONA. However, for purposes of continuity, a pre-tax measure of industrial category performance is presented on pages 30 and 31 of this report. This measure is the ratio of operating income to total assets less accounts payable and deferred revenue. In 1982, the consolidated pre-tax RONA was 1.1%, down from 9.9% in 1981 and 16.1% in 1980. Because 1980 was a record year, it stands as a benchmark against which current performance should be measured.

Return on common shareholders' equity was (16.8%) in 1982 compared to 9.9% in 1981 and 19.7% in 1980.

Liquidity

Total debt was $1,366 million at December 31, 1982, up only $60 million from the previous year-end in spite of the severity and speed of the downturn in business conditions in the early part of 1982. By the end of the second quarter, total debt had risen to $1,588 million before programs aimed at improving cash flow started to produce results. The following actions contributed to the significant reduction of debt in the second half and to stabilizing the financial structure of the company:

- The common share dividend was cut from a quarterly rate of 45 cents to 15 cents, an annualized savings of $37 million.
- Total employment was reduced by 21%.
- Inventory build-up was reversed by closing plants in the company's building materials operations and emphasizing cash flow rather than income in the company's real estate operations.
- Venture capital sales were expedited where possible.
- Collection of receivables was further emphasized and credit policies were reviewed and stringently applied.
- Several businesses and facilities were offered for sale, some of which were sold by the end of 1982.
- The financial services divisions were reorganized to create an independent, self-financing group of companies which allowed reduction in the company's direct investment in these operations.
- The company's committed bank lines of credit were extended to mid-1984.
- $200 million of revolving bank lines of credit were extended to a 12-year term bearing prime rate of interest.

At the same time that these positive actions were taking place, many of the company's real estate joint venture partners were unable to continue to financially support the projects causing Genstar to take over these partnerships and become responsible for related debts. By the end of 1982, $146 million of inventories of the partnerships had been consolidated. Following is further information detailing the actions taken by the company to improve liquidity.

Current Assets	**1982**	1981	1980
	(days)		
Accounts receivable turnover	**58**	64	60
Inventory turnover	**164**	162	143

The company was able to reduce accounts receivable proportionately more than the reduction in revenues resulting in a significant improvement in turnover in spite of the difficult economic environment. Inventory turnover deteriorated only slightly in 1982, even with the consolidation of joint venture inventories.

Asset Sales

The Statement of Changes in Financial Position shows that the company generated $189 million through sales of non-current assets, compared to $160 million in 1981 and $187 million in 1980. The 1982 sales provided most of the financing for necessary renewal and replacement of these same long-term assets. Negotiations continue with regard to several manufacturing facilities which could result in sales in the first half of 1983.

Financial Services Reorganization

Late in 1982, most of the company's financial services operations were consolidated under a newly-created holding company, Genstar Financial Corporation (GFC). The purpose of the reorganization was to combine within the same legal structure the many growing financial services businesses in the United States with the large and stable Canada Permanent Mortgage Corporation. With assets of more than $6.6 billion, GFC has the potential to raise significant amounts of new capital to finance future growth in financial services, a strategic objective of the company. The initial capital raised by GFC, amounting to approximately $100 million, was used to create the new group by purchasing operations and partially repaying inter-corporate debt from the company. Note 6 to the consolidated financial statements presents condensed financial statements of GFC.

Bank Lines of Credit

	December 31 **1982**	1981
	(millions of dollars)	
Canada	**830**	940
United States	**—**	360
Europe	**120**	120
	$950	$1,420

Average short-term borrowings were $660 million in 1982 compared to $415 million in 1981. Peak short-term borrowings were $750 million in 1982, up slightly from $736 million in 1981.

Interest rates paid by the company were at or below the prime lending rate in both years, depending upon the amount of borrowing through commercial paper. In 1982, the reduced usage of commercial paper in Canada reflected the lower credit rating of the company's commercial paper. Only $14 million of commercial paper was outstanding at the end of 1982 in Canada.

In the United States, approximately $215 million of the bank lines of credit at December 31, 1981 were used to support a significant commercial paper program. All U.S. bank lines of credit were terminated in the third quarter of 1982 when, in the course of the annual renewal of these credit facilities, the U.S. banking group sought such restrictive lending conditions that the company decided to operate without these corporate bank lines at the present time.

The Canadian bank lines of credit are comprised of both committed and demand facilities with all of the major Canadian banks. The committed facilities comprise a total of $737 million made up of long- and short-term lines of credit. At December 31, 1981, $637 million of the committed lines of credit were short-term and, in 1982, $200 million of the total facility was converted to floating rate long-term debt for a minimum term of 12 years. As a result, at December 31, 1982, the balance of $537 million of Canadian bank lines of credit are committed to July, 1984 and the remainder are on demand.

The reduction in Canadian bank lines during the year resulted from the conversion of some lines into long-term debt and from discontinuing a $40 million standby line for commercial paper which was no longer necessary.

In Europe, the company has demand bank lines of credit of $120 million with a consortium of European banks.

The company believes that it has sufficient short-term credit facilities to meet the current and anticipated near-term level of business.

Outlook

The company does not anticipate any major cash requirements in 1983, as capital spending is reduced and inventories of manufactured goods are not expected to be built up to traditional levels early in the year. With long-term debt servicing requirements relatively low, and assuming a successful program of asset sales, total debt should decline and liquidity improve further as the year progresses.

Note 17 to the financial statements describes restrictions on movements of funds within the consolidated group. The company does not consider these restrictions limiting in carrying out its financial objectives.

Capitalization

The principal components of the company's capital base are borrowed funds, deferred revenue and income taxes and shareholders' equity. The ratio of total debt to equity increased to 62:38 at the end of 1982, higher than the company's objective of 50:50. The ratios at the end of 1981 and 1980 were 57:43 and 49:51, respectively.

Operating losses in 1982 and the acquisition of Canada Permanent Mortgage Corporation in 1981 were the main reasons for the deterioration of the debt to equity ratio during the period. The company's previously described cash generation program should help in returning Genstar to a more conservative capital structure, in line with the long-term objective, in 1983.

The Securities and Exchange Commission requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and be considered as debt in computing balance sheet ratios. This approach ignores the respective rights of the holders of these shares and in particular holders of convertible shares. Using these guidelines, Genstar's total debt-to-equity ratios would be 72:28 in 1982, 68:32 in 1981 and 61:39 in 1980.

Joint Ventures

As described in Note 4 to the financial statements, the company carries out a significant amount of business through corporate and unincorporated joint ventures, in which ownership interests from 12.5% to 50% are maintained. The partnerships had total assets of $763 million at the end of 1982 and Genstar had invested $70 million for its ownership interests.

Total assets of the joint ventures declined by $178 million in 1982. Part of the decrease resulted from the winding-down of a major construction joint venture in British Columbia and part was from the cessation of any further development on most land and real estate joint ventures from mid-1982. However, a significant amount of the reduction resulted from the company being required to assume operating and financial control over several land and real estate joint ventures for which the other partners were unable to meet their obligations. The assets and liabilities of these joint ventures, amounting to approximately $160 million, are consolidated in the company's financial statements at December 31, 1982.

The table entitled Joint Ventures indicates that both the land and real estate and the manufacturing and construction groups of joint ventures operated at a loss in 1982 and were profitable in 1981. The manufacturing and construction joint ventures recorded a greater loss than the land and real estate joint ventures, but the company's share was small. Included in the manufacturing and construction joint ventures is a large hydroelectric construction project in British Columbia which has experienced considerable cost overruns during the past 2½ years. The job will be substantially completed in 1983 and the joint venture has submitted claims in respect to many of the additional costs.

The land and real estate joint ventures are widespread across Western Canada and the United States. Many projects in which the company was a limited partner failed because of the poor operating conditions in 1982, particularly in California, as the general partner could not pro-

Joint Ventures

	Land and Real Estate		Manufacturing, Construction and Other		Total	
	1982	1981	1982	1981	1982	1981
	(millions of dollars)					
Financial Position						
Assets						
Accounts receivable and other	68.9	105.7	100.2	154.4	169.1	260.1
Inventories	547.1	617.9	11.8	16.4	558.9	634.3
Fixed Assets	—	2.1	34.6	44.2	34.6	46.3
	$616.0	$725.7	$146.6	$215.0	$762.6	$940.7
Liabilities and Equity						
Short-term borrowings and construction loans	337.4	359.1	42.5	88.7	379.9	447.8
Accounts payable	41.4	37.7	64.3	33.0	105.7	70.7
Long-term debt	132.2	147.8	39.9	26.6	172.1	174.4
Equity and advances by other partners	32.4	63.7	(9.7)	44.7	22.7	108.4
Equity and advances by the company	72.6	117.4	9.6	22.0	82.2	139.4
	$616.0	$725.7	$146.6	$215.0	$762.6	$940.7
Operations						
Revenues	163.9	214.3	172.7	229.2	336.6	443.5
Expenses	206.4	196.2	224.9	226.7	431.3	422.9
Income (Loss) before income taxes	$ (42.5)	$ 18.1	$ (52.2)	$ 2.5	$ (94.7)	$ 20.6
Genstar's share of income (loss) before income taxes	$ (33.6)	$ 13.0	$ (7.1)	$ 1.5	$ (40.7)	$ 14.5

vide further financing. In most of these cases, the assets reverted to the secured lenders and the company had to write off its investment. These write-offs, as well as reserves against other projects which were not viable under the economic conditions experienced in 1982, amounted to $54 million in the year. It is possible that some of the provisions may be recovered in the future if the economy improves but it will be difficult for the projects to recover all the carrying costs from future profits.

The company believes that the real estate joint ventures are generally good projects under normal economic conditions and as interest rates decline, the projects will be sold. The company is also actively marketing condominium projects to individuals and investors worldwide in a maximum effort to reduce financial exposure in the real estate joint ventures.

Share Capital

Genstar's voting share capital consists of 30.9 million common shares and several series of preference shares. At December 31, 1982, 86% of the voting shares were registered and the balance were in bearer form.

Below is a summary of shareholdings of the company, which shows that the number of shareholders decreased slightly during 1982 and that Canadian resident shareholders owned approximately 44% of voting shares and represented 77% of Genstar's registered shareholders.

Income Tax Considerations for U.S. Individual Shareholders

Dividends are paid in Canadian and U.S. dollars and other currencies depending upon the residence of the shareholder. Dividends paid to United States resident shareholders in 1982 were subject to a 15% withholding tax. Generally, dividends received by United States citizens or residents are subject to U.S. income tax on the amount of the dividend but either a credit or a deduction for Canadian tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from domestic corporations is not available.

Shareholdings

	1982				1981			
	Shareholders		**Shareholdings**		Shareholders		Shareholdings	
	Numbers	**%**	**Shares (millions)**	**%**	Numbers	%	Shares (millions)	%
Common & Voting Preferred								
Canada	**11,416**	**77**	**15.4**	**44**	12,339	79	19.2	55
United States	**3,341**	**22**	**9.8**	**28**	3,021	20	6.3	18
Other	**176**	**1**	**4.8**	**14**	176	1	4.5	13
	14,933	**100**	**30.0**	**86**	15,536	100	30.0	86
Bearer	*		**4.7**	**14**	*		4.8	14
	14,933	**100**	**34.7**	**100**	15,536	100	34.8	100

*The ownership of bearer shares is unknown.

Common share trading volume increased in total and in both the Canadian and U.S. markets. Following is a five-year summary of common stock trading volume and price information:

Common Stock	**1982**	1981	1980	1979	1978
Trading volume (millions of shares)					
Canada	**8.9**	5.0	6.8	4.8	4.4
United States	**11.3**	7.3	5.6	1.1	0.6
Other	**.1**	0.2	0.9	0.9	0.8
	20.3	12.5	13.3	6.8	5.8
Price range*	**$24¾–8⅞**	$42¾–18⅜	$47–25	$27¾–18⅜	$19–12⅞
Closing price,* December 31	**$20¼**	$23⅜	$38⅝	$25⅞	$18⅞
Book value, December 31	**$19.83**	$24.12	$23.59	$19.20	$16.25

*Toronto Stock Exchange

Quarterly trading volume and price range information for 1982 and 1981 is included in Note 18 to the consolidated financial statements. Common shares are listed on the New York, Pacific, Toronto, Montreal, Alberta and Vancouver stock exchanges and the Brussels, Antwerp, Zurich, Geneva, Basel and Luxembourg bourses. Four series of preferred shares are also traded publicly.

Inflation

The major recession experienced throughout 1982 caused productivity and unemployment to replace inflation as the major concerns of business and wage earners. As previously described, Genstar has responded to this economic environment with aggressive productivity and asset/liability management. These actions were aimed at improving future returns by disposing of marginal assets and, accordingly, were compatible with actions necessary to reduce financial exposure to the effects of future inflation. Genstar does not use discrete internal inflation measurements but, instead, uses historical basis forecasting and strategic planning procedures to address all anticipated future business effects, including those of inflation.

Inflation-Adjusted Results

The information included in Note 19 to the consolidated financial statements restates certain balance sheet and statement of income items for the effects of inflation using methods prescribed by financial accounting authorities in Canada and the United States.

After providing for preferred share dividends, the current cost loss per share was $6.27 in 1982 compared to a loss of $1.22 in 1981. The per share amounts do not include the gain resulting from the decline in purchasing power of net liabilities which amounted to $115 million or $3.75 per common share in 1982 or the Canadian "financing adjustment" which amounted to a further $36 million or $1.17 per common share in 1982. These items represent the portion of inflation borne by lenders and not by Genstar shareholders. In our view, these amounts represent a reduction in financing costs and should be netted against interest expense in order to calculate inflation-adjusted debt cost. Earnings adjusted for the effects of inflation would be higher than historic cost earnings in the 1980–82 period shown if the effects of the holding gain and financing adjustments were included.

Inventories and fixed assets on a current cost basis of $2.3 billion in 1982 and $2.7 billion in 1981 were 38.5% and 52.5% higher than the respective historic cost amounts. The significant reduction in the inflationary value of assets in 1982 is primarily related to the specific price changes in the company's assets, which were 8.4% higher than general inflation in 1981 but were 28.3% lower in 1982. This indicates that the current cost of the company's specific inventories and fixed assets did not increase in value in line with the 10.8% average registered by the CPI. Although part of this difference is illusory as it results from applying a Canadian index to United States assets when 1982 general inflation was only 3.9% in that country, the balance is indicative of both a reduced value of the company's assets and a lower cost to maintain "operating capability."

Capital Stock and Retained Earnings on a current cost basis were equivalent to 175% of historic cost amounts, down from 190% at the end of 1981. This again highlights the 1982 reduction in inflationary values of assets. Including the effects of all convertible shares and debentures, 1982 current cost equity per common share was $43.95 compared to $54.07 in 1981. This large unrealized appreciation supports the underlying strength of the company's assets even in the current recessionary times.

Industrial Categories

Capital Expenditures by Industrial Category

(millions of dollars)	**1982**	1981	1980	1979	1978
Cement and lime	**21.7**	58.6	90.2	53.2	28.2
Concrete, aggregates and construction	**13.2**	45.1	32.0	31.4	14.9
Building supplies	**20.4**	29.3	34.5	4.2	0.7
Marine services	**3.5**	5.7	10.7	9.2	3.7
Other	**7.4**	8.8	4.8	8.1	5.3
Total	**$66.2**	$147.5	$172.2	$106.1	$52.8

Financial Data by Geographic Area (millions of dollars)	1982	1981	1980	1979	1978
Revenues					
Canada and other	**845.0**	1,068.2	980.3	961.0	898.5
United States	**915.2**	1,077.7	1,330.1	303.6	244.5
Total	**$1,760.2**	$2,145.9	$2,310.4	$1,264.6	$1,143.0
Operating Income*					
Canada and other	**126.1**	243.4	184.6	185.0	155.1
United States	**(72.0)**	46.4	181.9	84.3	67.6
Total	**$ 54.1**	$ 289.8	$ 366.5	$ 269.3	$ 222.7
Identifiable Assets					
Canada and other	**1,246.5**	1,470.9	1,074.4	1,066.3	977.9
United States	**1,413.8**	1,397.3	1,393.1	1,335.1	514.8
Total	**$2,660.3**	$2,868.2	$2,467.5	$2,401.4	$1,492.7

*Operating income is calculated before the deduction of interest and general corporate expenses and, accordingly, is greater than consolidated income before taxes by $239 million in 1982, $217 million in 1981 and $169 million in 1980.

Reclassification

Certain components of prior years' industrial categories have been changed to reclassify real estate joint venture financing from the financial services category to the land and real estate development category. Other operations, which presently consist of interests in chemical and fertilizer manufacturing, are now included with marine services.

Equity Income

Included in third party revenues is the company's share of the income or loss of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1982, $44 million of such losses is included in the revenues of the land and real estate development category, $53 million of income is included in the revenues of the financial services category, and $5 million of losses is included in the revenues of the concrete, aggregates and construction services category. The land and real estate development category includes $10 million of such income in 1981 and $25 million in 1980. The financial services category includes $21 million of such income in 1981 and $11 million in 1980. The concrete, aggregates and construction services category includes $2 million of losses in 1981 and $6 million in 1980.

Net Operating Assets

Net operating assets are calculated by deducting non-interest bearing liabilities, except for income taxes, from the identifiable assets of each category. General corporate assets are allocated to each category.

Pre-tax Operating Return on Net Assets

Pre-tax operating return on net assets is the performance measurement obtained by dividing income before interest and income tax expense by net operating assets.

Identifiable Assets by Industrial Category (millions of dollars)	1982	1981	1980	1979	1978
Cement and lime	**526.1**	548.3	515.1	514.3	230.8
Concrete, aggregates and construction	**330.9**	428.9	403.2	476.5	246.7
Building supplies	**285.0**	333.9	363.7	339.5	48.2
Land and real estate development	**788.2**	887.3	777.8	722.4	669.6
Financial services	**555.5**	479.9	198.6	162.3	77.1
Marine services	**108.3**	129.4	121.4	113.0	100.9
Other operations	**4.9**	2.6	35.4	37.6	97.9
General corporate	**61.4**	57.9	52.3	35.8	21.5
Total	**$2,660.3**	$2,868.2	$2,467.5	$2,401.4	$1,492.7

Results by Industrial Category

For the five years ended December 31, 1982 (restated)
(millions of Canadian dollars)

Cement and Lime

Manufacture of normal portland cement and oil well, high early- strength, masonry, sulphate-resistant, potash and other specialty cements. Manufacture of high-calcium and dolomitic quicklime and hydrated lime, and various crushed limestone products.

	REVENUES Third Party	Inter-Category	Total
1982	196.6	36.3	**232.9**
1981	270.5	42.7	**313.2**
1980	315.2	45.4	**360.6**
1979	141.3	40.8	**182.1**
1978	120.2	39.0	**159.2**

Concrete, Aggregates and Construction Services

Production of ready-mix concrete; precast and prestressed structural and architectural concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; and home repair products, including dry bagged concrete, mortar and blacktop mixes. Production of classified sand, gravel, standard and light-weight aggregates, crushed stone and gypsum rock. Municipal and real estate subdivision servicing (road construction, paving and installation of utilities) and heavy construction.

	Third Party	Inter-Category	Total
1982	567.6	7.5	**575.1**
1981	612.9	55.2	**668.1**
1980	557.2	52.1	**609.3**
1979	398.4	61.8	**460.2**
1978	347.6	43.6	**391.2**

Building Supplies

Manufacture of gypsum wallboard; roofing products, including asphalt shingles and rolls, liquid tar-based coating, felt and paperboard; asphaltic adhesives; recycled rubber for asphalt paving and rubber products; concrete admixtures. Wholesaling and distribution of construction materials to builders; sanitary landfilling and methane gas recovery.

	Third Party	Inter-Category	Total
1982	472.3	1.6	**473.9**
1981	574.1	1.2	**575.3**
1980	606.6	1.8	**608.4**
1979	39.9	—	**39.9**
1978	32.1	—	**32.1**

Marine Services and Other Operations

Tug and barge transportation of logs, wood chips, pulp and paper, lumber, limerock, aggregates, petroleum products, chemicals, trucks, containers, railway cars and large heavy-lift modular cargo. Shipbuilding and repairs; salvage; ferrying; berthing; lighterage; pollution control. Chemical and fertilizer manufacturing, and sale of commercial revenue properties in 1978 and 1979.

	Third Party	Inter-Category	Total
1982	154.4	1.7	**156.1**
1981	153.7	1.7	**155.4**
1980	167.1	1.7	**168.8**
1979	193.2	1.5	**194.7**
1978	178.3	1.1	**179.4**

Land and Real Estate Development

Development of residential, commercial and industrial land. Development and construction of single-family homes, duplexes, townhouses, shopping centers and warehouses; condominium conversions; real estate joint venture financing.

	Third Party	Inter-Category	Total
1982	270.9	9.4	**280.3**
1981	467.4	2.9	**470.3**
1980	604.8	—	**604.8**
1979	478.1	—	**478.1**
1978	416.9	—	**416.9**

Financial Services

Retail, commercial and mortgage banking; mortgage lending; marine financing; personal, pension and corporate trust, title insurance and escrow custodial and management services; venture capital investment; capital equipment lease and residential real estate sales brokerage; rental of transportation containers and electronic test and measurement equipment; property-casualty insurance.

	Third Party	Inter-Category	Total
1982	98.4	.5	**98.9**
1981	67.3	—	**67.3**
1980	59.5	1.1	**60.6**
1979	13.7	—	**13.7**
1978	47.9	—	**47.9**

Total Revenues

Sales of goods and services between categories are at market prices and are eliminated from consolidated revenues and cost of sales.

	Third Party	Inter-Category	Total
1982	1,760.2	57.0	**1,817.2**
1981	2,145.9	103.7	**2,249.6**
1980	2,310.4	102.1	**2,412.5**
1979	1,264.6	104.1	**1,368.7**
1978	1,143.0	83.7	**1,226.7**

Cost of Sales	Selling, General and Administrative	Depreciation Depletion and Amortization	Total	1982	1981	1980	1979	1978	Net Operating Assets	Pre-tax Return on Net Assets (percent)
COSTS AND EXPENSES				OPERATING INCOME						
164.7	23.8	24.3	212.8	**20.1**					488.0	**4.1**
206.6	25.2	22.5	254.3		58.9				507.0	**11.6**
258.7	28.5	22.6	309.8			50.8			466.6	**10.9**
130.4	11.1	7.1	148.6				33.5		252.5	**13.3**
113.3	11.9	6.7	131.9					27.3	214.7	**12.7**
481.1	43.8	18.9	543.8	**31.3**					239.0	**13.1**
517.2	53.6	27.8	598.6		69.5				297.5	**23.4**
487.1	44.8	27.4	559.3			50.0			325.3	**15.4**
374.9	27.0	18.5	420.4				39.8		196.4	**20.3**
328.7	23.5	14.7	366.9					24.3	193.3	**12.6**
453.8	45.4	17.5	516.7	**(42.8)**					231.3	**(18.5)**
528.7	58.7	16.9	604.3		(29.0)				273.2	**(10.6)**
527.0	51.0	14.0	592.0			16.4			294.1	**5.6**
24.3	3.1	1.0	28.4				11.5		55.1	**20.9**
20.8	2.2	1.1	24.1					8.0	45.5	**17.6**
123.9	7.9	7.4	139.2	**16.9**					94.9	**17.8**
105.2	8.3	8.4	121.9		33.5				102.5	**32.7**
118.2	9.7	10.4	138.3			30.5			134.4	**22.7**
135.6	8.9	10.6	155.1				39.6		135.8	**29.2**
129.6	10.1	25.8	165.5					13.9	166.9	**8.3**
281.5	52.6	2.1	336.2	**(55.9)**					724.6	**(7.7)**
299.1	64.0	2.7	365.8		104.5				790.0	**13.2**
355.7	54.4	2.4	412.5			192.3			668.6	**28.8**
293.7	49.1	1.7	344.5				133.6		623.7	**21.4**
253.8	37.7	1.7	293.2					123.7	557.6	**22.2**
12.0	1.7	.7	14.4	**84.5**					523.3	**16.1**
10.8	3.6	.5	14.9		52.4				468.1	**11.2**
30.7	3.0	.4	34.1			26.5			192.1	**13.8**
1.3	.9	.2	2.4				11.3		164.3	**6.9**
15.5	6.7	.2	22.4					25.5	65.9	**38.7**
Total Operating Income				**54.1**	289.8	366.5	269.3	222.7		
Unallocated Expenses										
Interest Expense				**209.2**	170.0	138.2	65.2	49.9		
Corporate and Other				**29.6**	47.4	31.1	14.0	17.9		
				238.8	217.4	169.3	79.2	67.8		
Income (Loss) before Income Taxes				**(184.7)**	72.4	197.2	190.1	154.9		
Income Taxes				**(100.4)**	(21.4)	39.3	63.6	67.0		
Net Income (Loss) for the Year				**$ (84.3)**	$ 93.8	$157.9	$126.5	$ 87.9		

Auditors' Report to the Shareholders

Vancouver Canada
February 25, 1983

We have examined the consolidated balance sheets of GENSTAR CORPORATION and subsidiaries as at December 31, 1982 and 1981 and the related statements of consolidated income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1982, as set forth on pages 28 through 55 of this report. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of GENSTAR CORPORATION and subsidiaries as at December 31, 1982 and 1981 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied after giving retroactive effect to the change in the method of accounting for foreign exchange as explained in Note 1 to the consolidated financial statements, on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Summary of Significant Accounting Policies

For the years ended December 31, 1982, 1981 and 1980

The following accounting policies conform with those generally accepted in both Canada and the United States.

Consolidation

Subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting. Financial services subsidiaries are accounted for on the equity method because their financial structure and operations differ significantly from the company's other businesses.

Investments in joint ventures are accounted for on the equity method.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally at average on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which are expected to be sold within the five-year operating cycle of the land development business. Other parcels are classified as development land.

Investments

Portfolio securities are stated at the lower of cost or net realizable value.

Fixed Assets

Properties, plants and equipment are stated at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Non-cash consideration from land and housing sales is adjusted to reflect the market value of the consideration.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

Deferred revenues result from the contribution of land to a partnership at a value in excess of cost, the sale of the future production from limestone deposits and the sale and leaseback, at a value in excess of cost, of mobile equipment. Income is recognized as sales are made to third parties in the cases of the land partnership and limestone deposits and over the term of the lease in the case of the sale and leaseback transaction.

Consolidated Statements of Income

For the years ended December 31, 1982, 1981 and 1980
(thousands of Canadian dollars)

GENSTAR

	Note Reference 1	1982	1981 (restated)	1980
Revenues				
Net sales and other revenue		**1,707,706**	2,129,767	2,303,876
Equity net income of Genstar Financial Corporation	6	**52,521**	16,155	6,569
		1,760,227	2,145,922	2,310,445
Costs and Expenses				
Cost of sales and services		**1,460,662**	1,566,885	1,676,413
Selling, general and administrative		**204,148**	257,856	221,360
Depreciation, depletion and amortization		**70,896**	78,781	77,209
		1,735,706	1,903,522	1,974,982
Operating Income		**24,521**	242,400	335,463
Financing costs				
Interest on long-term debt		**92,208**	85,568	76,115
Other interest		**117,009**	84,400	62,127
		209,217	169,968	138,242
Income (Loss) before Income Taxes		**(184,696)**	72,432	197,221
Provision for income taxes	14			
Current		**(7,700)**	(8,600)	44,500
Deferred		**(92,700)**	(12,800)	(5,200)
		(100,400)	(21,400)	39,300
Net Income (Loss) for the Year		**$ (84,296)**	$ 93,832	$ 157,921
Net Income (Loss) per Common Share	15			
Canadian Method				
Basic		**$(3.36)**	$2.40	$4.92
Fully diluted		**(3.36)**	2.34	4.48
United States Method				
Primary		**(3.36)**	2.37	4.54
Fully diluted		**(3.36)**	2.34	4.48

Consolidated Balance Sheets

As at December 31, 1982 and 1981
(thousands of Canadian dollars)

	Note Reference 1	**1982**	1981 (restated)
Assets			
Current Assets			
Cash and term deposits		**19,833**	12,316
Accounts receivable		**280,532**	376,939
Inventories	*2*	**656,165**	695,204
		956,530	1,084,459
Joint Ventures, Development Land and Investments	*3*	**287,552**	344,614
Fixed Assets	*5*		
Properties, plants and equipment		**1,442,092**	1,536,081
Accumulated depreciation and depletion		**551,509**	565,385
		890,583	970,696
Investment in Genstar Financial Corporation	*6*	**477,378**	419,100
Intangible Assets	*7*	**48,261**	49,330
		$2,660,304	$2,868,199

On behalf of the Board

Director

Director Angus MacNaught

	Note Reference 1	1982	1981 (restated)
Liabilities			
Current Liabilities			
Short-term borrowings	8	**415,110**	566,513
Accounts payable		**271,929**	286,867
Income taxes		**(20,246)**	(12,582)
Advances relating to housing and land inventories	9	**177,265**	82,494
Current portion of long-term debt	10	**20,747**	24,431
		864,805	947,723
Lease Deposit	11	**—**	65,000
Long-Term Debt	10	**752,899**	633,135
Deferred Revenue		**87,361**	78,055
Deferred Income Taxes	14	**82,100**	167,800
		1,787,165	1,891,713
Capital Stock and Retained Earnings			
Redeemable Preferred Shares	12	**120,000**	120,000
Convertible Redeemable Preferred Shares	12	**106,868**	111,068
Common Shares and Contributed Surplus	13	**296,775**	291,718
Retained Earnings		**316,796**	448,000
Unrealized Foreign Exchange Translation	1	**32,700**	5,700
		$2,660,304	$2,868,199

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1982, 1981 and 1980
(thousands of Canadian dollars)

Funds Available for Investment	Note Reference 1	1982	1981	1980 (restated)
Net Income (Loss) for the Year		**(84,296)**	93,832	157,921
Items Not Affecting Funds				
Depreciation, depletion and amortization		**70,896**	78,781	77,209
Gains on sales of assets		**(15,600)**	(9,473)	(2,977)
Deferred income taxes	*14*	**(92,700)**	(12,800)	(5,200)
Equity income less distributions		**(18,290)**	(10,946)	(9,995)
Diminution in value of long-term assets		**38,525**	—	5,730
Other		**(4,591)**	5,933	950
Funds from (Required by) Operations		**(106,056)**	145,327	223,638
Changes in Operating Working Capital				
Cash		**(7,517)**	11,541	42,069
Accounts receivable		**96,407**	5,591	26,129
Inventories		**39,039**	(30,868)	(33,090)
Accounts payable and income taxes		**(22,602)**	(63,426)	(60,359)
Advances relating to land and housing inventories		**94,771**	8,618	(53,589)
Foreign exchange translation effects		**9,953**	6,951	3,761
Decrease (Increase) in Operating Working Capital		**210,051**	(61,593)	(75,079)
Financing Activities				
Increase (Decrease)				
Long-term debt		**153,725**	230,807	68,723
Capital stock		**857**	4,186	198,756
Deferred revenue and lease deposit		**(12,493)**	60,264	(8,247)
Repayment of long-term debt		**(45,183)**	(224,584)	(161,878)
Financing Generated		**96,906**	70,673	97,354
Dividends		**(46,908)**	(75,234)	(64,807)
Funds Available for Investment		**$ 153,993**	$ 79,173	$ 181,106

Investment of Funds	Note Reference	1982	1981	1980
Genstar Financial Corporation				
Acquisition of subsidiary	16	—	288,000	—
Investments		**90,555**	39,078	42,332
Distributions		**88,402**	64,371	23,567
		2,153	262,707	18,765
Fixed Assets				
Additions		**66,224**	147,547	172,227
Disposals		**37,638**	29,785	85,749
		28,586	117,762	86,478
Joint Ventures				
Investments		**39,257**	37,945	51,910
Distributions		**32,153**	39,313	18,729
		7,104	(1,368)	33,181
Land and Development Land				
Increases		**45,127**	108,186	64,204
Decreases		**93,913**	72,861	36,942
		(48,786)	35,325	27,262
Investments and Other				
Increases		**38,572**	56,190	23,748
Decreases		**25,039**	17,544	45,656
		13,533	38,646	(21,908)
Invested in the Year		**$ 2,590**	$453,072	$ 143,778
Short-term Borrowing—				
Beginning of Year		**566,513**	192,614	229,942
Funds Available for Investment		**153,993**	79,173	181,106
		412,520	113,441	48,836
Funds Invested		**2,590**	453,072	143,778
End of the Year		**$ 415,110**	$566,513	$ 192,614

Consolidated Statements of Retained Earnings

For the years ended December 31, 1982, 1981 and 1980
(thousands of Canadian dollars)

	Note Reference	1982	1981	1980
Balance—Beginning of Year	1	**448,000**	429,402	341,432
Net income (loss) for the year		**(84,296)**	93,832	157,921
		363,704	523,234	499,353
Dividends—preferred shares		**19,234**	20,390	17,684
—common shares		**27,674**	54,844	47,123
Share issue expenses		—	—	5,144
		46,908	75,234	69,951
Balance—End of Year		**$316,796**	$448,000	$429,402

1. Foreign Exchange Translation

The company has retroactively adopted the currency translation method changes proposed by both the Canadian Institute of Chartered Accountants and the United States Financial Accounting Standards Board as more accurately reflecting the economic effects of foreign exchange transactions. Under the new policy, assets of subsidiaries operating in foreign currencies and related liabilities are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at the average exchange rate for the year. Unrealized balance sheet translation amounts are maintained as a separate balance sheet account until such time as foreign currency amounts are realized in Canadian dollars. All other amounts denominated in foreign currencies are translated at historical exchange rates for non-monetary items and at the year-end exchange rate for monetary items, with translation fluctuations included in income.

Prior years' comparative amounts denominated in foreign currencies have been restated to conform to the new policy. The effect of this restatement was to decrease net income by $15,700,000 ($0.52 per common share) for 1981 and to increase net income by $4,200,000 ($0.15 per common share) for 1980. In addition, all prior years' net incomes have been restated to average exchange rates and to remove unrealized gains and losses with resulting increases in retained earnings of $3,000,000, $18,700,000 and $14,500,000 at January 1, 1982, 1981 and 1980, respectively.

This new policy removes from net income the volatile effects of exchange rate fluctuations resulting under the previous accounting policy. The previous policy would have charged 1982 net income with a non-economic exchange fluctuation loss of $20,000,000 ($0.65 per common share) when the Canadian dollar equivalent of net foreign currency assets actually increased by $27,000,000 during 1982.

An analysis of the changes in the unrealized foreign exchange translation account follows:

	1982	1981	1980
	(thousands of dollars)		
Balance—beginning of year	**5,700**	11,300	2,500
Translation adjustments:			
Change in exchange rate	**26,700**	(9,600)	4,900
Change in net asset composition	**3,100**	4,000	3,900
Deferred income taxes	**(2,800)**	—	—
Balance—end of year	**$32,700**	$ 5,700	$11,300
Unrealized foreign exchange gain (loss) included in income	**$ 5,800**	$ (7,000)	$ —
Canadian equivalent of one United States dollar (year-end rate)	**$ 1.235**	$ 1.185	$ 1.20

2. Inventories

	(thousands of dollars)	
Finished goods	**149,083**	140,941
Work in process	**37,781**	84,645
Raw materials, supplies and repair parts	**66,918**	78,645
Land	**402,383**	335,675
Revenue property held for sale	**—**	55,298
	$656,165	$695,204

3. Joint Ventures, Development Land and Investments

	1982	1981
	(thousands of dollars)	
Joint ventures—at equity (Note 4)	**70,048**	101,564
Development land	**43,683**	60,063
Mortgages and loans receivable	**65,285**	94,937
Portfolio securities—at cost	**57,924**	56,615
Development property subsidiary	**50,612**	31,435
	$287,552	$344,614

Mortgages and loans receivable include $32,400,000 at December 31, 1982 and $57,700,000 at December 31, 1981 related to land and housing sales with interest rates of 11% to prime plus 2%. The remaining amounts relate primarily to balances on asset sales and stock purchase plans.

Portfolio securities include marketable investments of $13,830,000 at December 31, 1982 and $16,214,000 at December 31, 1981 with market values of $40,400,000 and $30,800,000, respectively.

The development property subsidiary is held for sale and consists of land and properties under development of $85,612,000, net of secured and unsecured debt of $35,000,000 at December 31, 1982 and $106,835,000 net of secured and unsecured debt of $75,400,000 at December 31, 1981.

4. Joint Ventures

The company is a partner in a number of incorporated and unincorporated joint ventures engaged in the development and financing of real estate, construction, chemical and mixed fertilizer production and marine financing activities. The following is a summary of the combined operations and financial position of these investments.

	1982	1981
	(thousands of dollars)	
Net Assets Employed		
Accounts and loans receivable and other assets	**169,096**	260,148
Fixed assets	**34,573**	46,304
Land, real estate development and other inventories	**558,887**	634,275
	762,556	940,727
Accounts payable and other liabilities	**105,711**	70,669
	$656,845	$870,058
Financed by		
Mortgages and loans payable	**551,987**	622,231
Equity and advances by other partners	**22,649**	108,408
Equity and advances by the company	**82,209**	139,419
	$656,845	$870,058

	1982	1981	1980
	(thousands of dollars)		
Operations			
Revenues	**336,569**	443,526	442,298
Expenses	**431,377**	422,876	414,389
Income (Loss) before income taxes	**$ (94,808)**	$ 20,650	$ 27,909
Allocation of Income (Loss)			
Other partners	**(54,086)**	6,175	6,165
Company	**(40,722)**	14,475	21,744
	$ (94,808)	$ 20,650	$ 27,909

During 1982, the company assumed operating and financial responsibility for several joint ventures. Consequently, at December 31, 1982, $160,000,000 of assets, primarily inventories, and related liabilities of $158,000,000, which previously formed part of joint ventures, have been consolidated.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times the joint venture partners may further support these obligations should the realization from joint venture assets not be sufficient. As a general partner in certain unincorporated ventures, the company is contingently liable at December 31, 1982 for the other partners' share of liabilities of $57,500,000 should the other partners not be able to satisfy them, as well as for its own share of $64,200,000 compared to $112,100,000 and $116,700,000, respectively, at December 31, 1981. As a limited partner in other ventures, the company is a guarantor of partnership liabilities of $24,700,000 compared to $18,200,000 at December 31, 1981. Under certain partnership agreements, the company is also committed to make additional investments of $6,700,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet principal and interest requirements for $112,500,000 of loans if the partnership is unable to do so from its own resources. These loans bear interest at 9.75%, mature to 1993 and require the following payments of principal over the next five years:

1983—$ 6,073,000; 1984—$12,094,000;
1985—$11,234,000; 1986—$11,119,000;
1987—$11,124,000.

[illegible]

	1982		1981	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	**37,511**	**—**	41,487	—
Quarries and gravel deposits	**63,700**	**15,591**	60,637	12,343
Buildings	**251,458**	**90,966**	261,825	84,194
Machinery and equipment	**1,089,423**	**444,952**	1,172,132	468,848
	$1,442,092	**$551,509**	$1,536,081	$565,385

Included in fixed assets at December 31, 1982 is construction in progress of $47,000,000 with an estimated cost to complete of $37,000,000.

The net book value of fixed assets held under capital leases was $38,000,000 at December 31, 1982 and $39,000,000 at December 31, 1981.

6. Investment in Genstar Financial Corporation

Genstar Financial Corporation (GFC) and its subsidiaries are engaged primarily in retail, commercial and mortgage banking, fiduciary services, real estate brokerage and rental and leasing. GFC was formed on December 30, 1982 by a reorganization of the company's financial services subsidiaries. The following summary presents the combined operations and financial position of GFC based on the original acquisition date and purchase accounting.

	1982	1981	1980
	(thousands of dollars)		
Revenues			
Interest income	**878,997**	351,832	22,040
Fees and other revenues	**223,171**	158,193	36,212
	1,102,168	510,025	58,252
Expenses			
Interest expense	**772,370**	339,162	20,570
Other costs and expenses, including income taxes	**277,277**	154,708	31,113
	1,049,647	493,870	51,683
Net income for the year	**$ 52,521**	$ 16,155	$ 6,569

	1982	1981
	(thousands of dollars)	
Assets		
Cash, short-term deposits and marketable securities	**1,391,675**	885,988
Mortgages, loans and accounts receivable	**4,567,503**	4,743,212
Premises, properties and lease equipment	**314,416**	147,266
Accrued interest and other assets	**178,796**	60,512
Intangible assets arising from acquisitions	**188,225**	197,746
	$6,640,615	$6,034,724
Liabilities		
Short-term deposits and borrowings	**1,712,685**	1,546,906
Registered savings plans, debentures and guaranteed investment certificates	**3,974,934**	3,946,036
Accrued interest and other liabilities	**413,548**	160,800
Advances from affiliates	**124,930**	2,688
	6,226,097	5,656,430
Capital Stock and Retained Earnings		
Capital stock and contributed surplus	**351,639**	351,052
Retained earnings subsequent to acquisition	**62,879**	27,242
	$6,640,615	$6,034,724

Intangible assets represent the excess of the cost of investment in subsidiaries over fair value of net tangible assets and liabilities at the dates of acquisition. Amortization and other adjustments related to this excess are included in income and increased subsidiaries' reported net income by $16,900,000 in 1982 and reduced net income by $3,000,000 and $4,000,000 in 1981 and 1980, respectively. This excess cost relates primarily to the acquisition of Canada Permanent Mortgage Corporation and is explained in more detail in Note 16 to these financial statements.

A reconciliation of the preceding summary to the consolidated investment in financial services subsidiaries is as follows:

	1982	1981
	(thousands of dollars)	
Capital stock and retained earnings from above	**414,518**	378,294
Advances from affiliates	**124,930**	2,688
	539,448	380,982
Elimination of unrealized inter-company gains	**(62,070)**	(14,404)
Consolidation of short-term borrowings	**—**	52,522
Investment in Genstar Financial Corporation	**$477,378**	$419,100

7. Intangible Assets

	1982	1981
	(thousands of dollars)	
Intangible assets arising from acquisitions	**40,642**	40,453
Debt discount	**7,619**	8,877
	$48,261	$49,330

Intangible assets include an unamortized balance of $8,713,000 at December 31, 1982 from acquisitions subsequent to November 1, 1970, which is being amortized to income over periods up to forty years. Unamortized intangible assets are charged to income in the event of diminution in value.

8. Short-Term Borrowings

	1982	1981
	(thousands of dollars)	
Bank advances	**401,200**	420,043
Short-term promissory notes	**13,910**	146,470
	$415,110	$566,513

9. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is $78,492,000 at December 31, 1982 and $46,644,000 at December 31, 1981 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of $98,773,000 at December 31, 1982 and $35,850,000 at December 31, 1981 represent construction financing and mortgage loans on residential houses included in inventories, which will be repaid or assumed by the purchaser upon sale of the related asset. Interest rates on these advances range from 6% to prime plus 3%.

10. Long-Term Debt

	1982		1981	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Debentures				
9% convertible due in 1985*	—	4,659	—	4,489
6½% convertible due in 1988*	—	9,605	—	9,572
17½% convertible due to 1989*	—	92,594	—	89,250
10% due to 1989*	—	55,482	—	55,157
14¾% due to 1991*	1,513	58,076	1,309	58,310
7% due to 1991**	—	61,150	—	66,500
11¾% due to 1995	440	18,440	1,500	20,952
11% sinking fund due to 1996*	2,027	31,917	1,968	32,871
11¼% due to 1996	289	40,289	2,500	48,260
10¾% due to 1999	2,000	50,000	—	50,000
	6,269	422,212	7,277	435,361
Capital Lease Obligations				
5¾% to 12% revenue bonds due to 1999*	49	27,707	143	27,989
4% to 13⅞% building and equipment leases due to 1996*	4,760	18,090	10,892	29,751
	4,809	45,797	11,035	57,740
11% Term Bank Loan due to 1989*	—	23,403	—	22,278
Non Interest Bearing to 16[illegible]% Notes, Management Debentures Due to [illegible]*	9,669	31,804	6,119	35,671
Fixed Interest Rate Debt	20,747	523,216	24,431	551,050
Variable Rate Term Bank Loans				
Prime due in 1983	—	—	—	100,000
Prime due in 1984*	—	50,050	—	—
Prime plus ¾% due in 1987*	—	50,430	—	—
Prime plus 1¼% due to 1989	—	—	—	6,516
Prime rate debentures due to 1994*	—	149,950	—	—
Variable Interest Rate Debt	—	250,430	—	106,516
	20,747	773,646	24,431	657,566
Current Portion	—	20,747	—	24,431
Long-Term Debt	$20,747	$752,899	$24,431	$633,135

*All or partly payable in U.S. dollars.
**Payable in Swiss francs.

All debentures except the 9% convertible debentures due in 1985, the 6½% convertible debentures due in 1988 and the 11% debentures due to 1996 are secured by a floating charge on most of the Canadian assets of the company.

Trust indentures pertaining to the debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends. Under the most restrictive of these covenants, retained earnings of $215,000,000 were available for common share dividends at December 31, 1982.

Capitalized leases include municipal revenue bonds on lease-option facilities of a subsidiary which require lease payments equal to bond servicing and redemption requirements.

The following payments are required in the next five years for long-term debt installment, sinking fund and purchase fund provisions and capital lease obligations:

	Long-term Debt	Capital Leases
	(thousands of dollars)	
1983	$15,938	$ 8,145
1984	66,375	17,937
1985	37,402	4,491
1986	32,599	3,349
1987	90,226	2,885
Subsequent years' lease payments		27,299
Total lease payments		64,106
Imputed interest		18,309
Present value of minimum lease payments		$45,797

11. Lease Deposit

This deposit relates to a mobile equipment sale and leaseback transaction completed during 1982.

Canada Permanent Mortgage Corporation provides the financing to the leasing company at market terms.

12. Redeemable Preferred Shares

Shares Authorized

Preferred—*5,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—3,390,424 Series A, B and D voting convertible shares bearing dividends from $1.10 to $1.50 each.

Second Preferred—*20,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—1,000,000 Series A non-voting non-convertible shares of the stated value of U.S. $100 each bearing cumulative variable rate dividends.

—439,181 Series B voting convertible shares of the stated value of $24.40 each bearing cumulative dividends of U.S. $1.68 each.

—3,000,000 Series C voting convertible shares of the stated value of $31.50 each bearing cumulative dividends of $2.35 each.

—2,000,000 Series SP voting convertible shares of stated values determined at date of issue bearing non-cumulative dividends at various rates.

Issued and Fully Paid	1982		1981		1980	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Redeemable						
Second preferred shares						
—Series A	**1,000**	**$120,000**	1,000	$120,000	1,000	$120,000
Convertible Redeemable						
Preferred shares						
—Series A, B & D	**208**	**4,156**	216	4,315	237	4,729
Second preferred shares						
—Series B	**211**	**5,157**	214	5,208	316	7,715
—Series C	**2,977**	**93,770**	2,977	93,770	2,985	94,016
—Series SP	**485**	**3,785**	739	7,775	625	7,025
	3,881	**$106,868**	4,146	$111,068	4,163	$113,485

Convertible Redeemable Shares Issued	1982	1981	1980
		((thousands of shares)	
Beginning of year	**4,146**	4,163	795
Issued in the year			
—Series SP at U.S. $3.81 to U.S. $13.75	**497**	114	340
—Series D at $22.50 in exchange for options and warrants of an amalgamated subsidiary	**—**	41	100
—Series C at $31.50 pursuant to a public offering	**—**	—	3,000
—Series B second preferred at $24.40	**—**	—	439
	4,643	4,318	4,674
Converted to common shares	**(11)**	(172)	(511)
Series SP redeemed	**(751)**	—	—
End of year	**3,881**	4,146	4,163

Under the terms of the second preferred share issue agreements, no preferred shares ranking higher than the second preferred shares can be issued without the consent of the second preferred shareholders.

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As of December 31, 1982, 1981 and 1980, the dividend rates were 6.29%, 9.50% and 8.56% respectively. At the option of the holder, the company will repurchase, at the stated value, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

Each Series C second preferred share is convertible into one common share until June 30, 1990, after which the company will purchase 1% of the shares then outstanding per quarter. Since issue in 1980 a total of 23,180 shares has been converted to common shares.

During 1982, all Series SP shares issued in prior years were redeemed at their stated values. New Series SP shares, which are subordinate to all other preferred shares, were then issued.

11. Common Shares and Contributed Surplus

Authorized—*an unlimited number, without nominal or par value.*

Issued and Fully Paid

	1982		1981		1980	
	Shares	Amount	Shares	Amount	Shares	Amount
	(thousands)					
Common shares	**30,878**	**288,223**	30,589	283,166	30,215	276,665
Contributed surplus	**—**	**8,552**	—	8,552	—	8,450
	30,878	**$296,775**	30,589	$291,718	30,215	$285,115

Common Shares Issued

	1982	1981	1980
	(thousands of shares)		
Beginning of year	**30,589**	30,215	27,380
Issued in the year—			
At U.S. $16.00 in exchange for convertible debentures	**17**	81	316
At $10.00 to $31.50 on the conversion of preferred shares	**16**	224	500
At $42.25 and U.S. $36.25 pursuant to a public offering	**—**	—	2,000
At $6.77 to $42.14 under stock purchase plans and on the exercise of options and warrants	**256**	69	19
End of year	**30,878**	30,589	30,215

Common Shares Reserved for Issuance

	1982	1981	1980
At $31.50 for the conversion of Series C second preferred shares	**2,977**	2,977	2,985
At $24.40 for the conversion of Series B second preferred shares	**190**	192	285
At U.S. $5.85 to U.S. $9.68 for the conversion of Series SP second preferred shares	**454**	86	391
At $10.00 for the conversion of preferred shares	**416**	432	565
At $11.99 to $15.75 and U.S. $10.88 to U.S. $17.88 for the exercise of options	**138**	60	101
At U.S. $16.00 for the conversion of debentures	**486**	503	584
	4,661	4,250	4,911

1965 Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90% of market on the grant date. Employees, the majority of whom were also officers and directors, held options for 56,415, 60,000 and 100,000 common shares at December 31, 1982, 1981 and 1980 respectively. Option prices from inception of the plan have ranged from $4.89 to $23.85.

1982 Stock Option Plan

Subject to shareholders' approval, options have been granted under a new plan whereby common shares may be purchased by employees at a price equal to 100% of market as of the date of grant. On December 31, 1982, employees held options for 81,795 shares which become exercisable in 1983 at prices from U.S. $10.88 to U.S. $17.88 per share.

1969 Stock Purchase Plan

Under the terms of the 1969 Stock Purchase Plan, trustees have purchased, at approximately 99% of market, 47,380 common shares for the benefit of employees who are officers and 255,015 common shares for the benefit of other employees. The participants pay $11.99 to $15.75 for the shares over a period of seven years together with interest calculated at 5% per annum. The shares are held as security by the trustees until full payment has been received.

1979 Stock Purchase Plan

Under the terms of the 1979 Stock Purchase Plan, 484,650 Series SP second preferred shares remain issued of which 456,850 are held by employees who are directors or officers and 27,800 are held by other employees.

The participants pay U.S. $5.48 to U.S. $9.06 for the shares over a period of ten years together with interest currently set at 9% per annum. Noncumulative dividends are paid at the annual rate of U.S. $0.66 to $1.09 per share.

14. Income Taxes

Income before taxes and provision for income taxes by geographic area are as follows:

	1982	1981	1980
	(thousands of dollars)		
Income (Loss) Before Income Taxes			
Canada	**(25,669)**	90,855	76,852
United States	**(289,790)**	(158,883)	37,200
Other	**130,763**	140,460	83,169
	$(184,696)	$ 72,432	$197,221
Provision for Current Income Taxes			
Canada—Federal	**(4,200)**	21,600	18,200
—Provincial	**(1,200)**	6,900	5,900
United States	**(5,500)**	(38,600)	17,900
Other	**3,200**	1,500	2,500
	$ (7,700)	$ (8,600)	$ 44,500
Provision for Deferred Income Taxes			
Canada—Federal	**(17,400)**	5,200	12,300
—Provincial	**(5,000)**	1,800	4,000
United States	**(70,300)**	(19,800)	(21,500)
	$ (92,700)	$ (12,800)	$ (5,200)

The components of the deferred tax provision are as follows:

	1982	1981	1980
	(thousands of dollars)		
Additional depreciation for tax purposes	**6,400**	5,900	5,500
Losses available to reduce future taxable income	**(30,000)**	(19,800)	—
Investment gains realized for tax purposes	**—**	—	(6,700)
Portion of real estate and joint venture income deferred (recognized) for tax purposes	**(1,400)**	1,700	(5,200)
Excess tax value of assets available to reduce future taxable income	**(69,700)**	—	—
Other	**2,000**	(600)	1,200
	$ (92,700)	$ (12,800)	$ (5,200)

The company's effective income tax rates are as follows:

	1982	1981	1980
Canadian and United States federal income tax rates	**(46.0)%**	46.0%	46.0%
Effects of investment, manufacturing and processing tax incentives	**6.7**	(12.5)	(5.0)
Provincial and state income taxes, net of federal deductions	**(1.6)**	(1.5)	1.3
Reduced rate on capital gains and other income	**6.4**	(8.0)	(0.3)
Inter-unit interest income taxed at reduced rates	**(30.3)**	(80.6)	(24.7)
Losses available to reduce future tax provisions	**15.0**	35.5	—
Non-taxable foreign income and equity net income	**(6.4)**	(16.7)	(1.5)
Amortization of acquisition purchase price allocations	**0.5**	6.9	1.7
Other	**1.3**	1.4	2.4
	(54.4)%	(29.5)%	19.9%

Investment tax credits are accounted for on the flow-through method.

Losses of $229,000,000 are available to reduce future United States taxable income in years up to and including 1997. Tax recoveries have not been recorded on $123,000,000 of these losses. In addition, the tax value of United States assets exceeds book amounts by $160,000,000 which is available to reduce future taxable income. Deferred income taxes recoverable of $69,700,000 have been recorded in this regard.

Income taxes have not been provided on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations. At December 31, 1982, $110,000,000 of such undistributed income, if distributed as dividends, would not be subject to any additional income tax, and $330,000,000 would be subject to income tax at 46%.

15. Net Income Per Common Share

The weighted average number of shares used in calculating net income per common share under the Canadian and United States methods is as follows:

	Canadian			United States		
	1982	1981	1980	**1982**	1981	1980
	(thousands of shares)					
Basic and Primary						
Weighted average common shares.....	**30,653**	30,495	28,526	**30,653**	30,495	28,526
Share equivalents pertaining to						
—conversion of preferred shares	—	—	—	—	3,247	3,316
—conversion of debt................	—	—	—	—	525	622
—options and warrants	—	—	—	—	54	170
	30,653	30,495	28,526	**30,653**	34,321	32,634
Fully Diluted						
Weighted average common shares.....	**30,653**	30,495	28,526	**30,653**	30,495	28,526
Shares pertaining to						
—conversion of preferred shares	—	3,724	3,841	—	3,724	3,841
—conversion of debt................	—	525	622	—	525	622
—options and warrants	—	146	254	—	55	172
	30,653	34,890	33,243	**30,653**	34,799	33,161

Basic and primary income per common share have been calculated after reducing net income by $18,689,000 in 1982, $20,589,000 in 1981 and $17,543,000 in 1980, being the preferred share dividend entitlement. Net income was increased for purposes of calculating United States income per common share by $7,958,000 in 1981 and $7,924,000 in 1980, being the effect on income available for common shares of dividends and interest paid on common share equivalents.

In determining fully diluted income per common share, net income has been reduced by $18,689,000 in 1982, being dividends on all outstanding preferred shares, and $12,680,000 in 1981 and $9,710,000 in 1980, being the dividends on outstanding non-convertible preferred shares, and increased by $331,000 in 1981 and $394,000 in 1980, being the after-tax effect of interest on convertible debt. Net income was further increased for purposes of calculating Canadian fully diluted income per common share by $94,000 in 1981 and $185,000 in 1980 to reflect an imputed after-tax return of 5% to 10% on funds which would have been available on the exercise of options and warrants.

In 1982, the weighted average number of common shares used to calculate primary and fully diluted income per common share has not been increased for the potential effects of conversion of options, convertible preferred shares or debt, as this would reduce the calculated loss per common share.

16. Business Combination

During 1981, the voting shares of Canada Permanent Mortgage Corporation (CPMC) were acquired through cash tender offers and private purchases. This investment has been accounted for on the equity method of accounting effective July 31, 1981.

CPMC provides financial intermediary services nationally in Canada through branches which accept deposits and make residential mortgage, personal and commercial loans primarily for terms of one to five years. Short-term and demand checking and savings deposits are also accepted and investments are also made in marketable securities and short-term deposits. CPMC also provides personal, pension and corporate fiduciary services through the branch locations and real estate brokerage services through sales offices across Canada.

Details of the acquisition, which was accounted for on the basis of purchase accounting, are as follows:

		(thousands of dollars)
Net tangible assets at the net book value of CPMC		201,700
Minority non-voting redeemable preference shares		19,000
		182,700
Allocation of purchase price to		
Tangible net assets — loan assets	(151,300)	
— deposit liabilities	99,300	
— marketable securities	(28,200)	
— properties and equipment	29,700	(50,500)
Identifiable intangible assets		
— financial intermediary business	41,500	
— fiduciary business	34,500	
— real estate brokerage business	15,300	91,300
Residual intangible assets		64,500
Cost of investment		$288,000

Reported net income of CPMC is adjusted to include amortization of the purchase price allocation to financial assets and liabilities, which in most cases occurs by December 31, 1986, and over the estimated remaining useful lives of 4 to 40 years for the depreciable portion of properties and equipment. For intangible assets, the periods and methods of amortization range from 10 year declining balance to 40 year straight-line with an average charge approximating a 25 year straight-line amortization of total intangible assets. The cost of the investment in CPMC on consolidation exceeds the underlying book value of net tangible assets by $103,000,000 at December 31, 1982.

Equity income of CPMC included in the consolidated financial statements is as follows:

	1982	1981
	(thousands of dollars)	
CPMC net income as reported	12,769	19,767
Dividends on non-voting redeemable preference shares	1,482	1,524
	11,287	18,243
Pre-acquisition income	—	10,028
	11,287	8,215
Adjustments for purchase price allocation:		
Financial assets and liabilities—discount amortization	37,500	16,700
Marketable securities—reduction of gains	(3,967)	(14,568)
Other assets—depreciation and amortization	(7,527)	1,289
Equity income	$ 37,293	$ 11,636

Assuming that the acquisition, at the same excess cost, had taken place on January 1, 1980, that the required amortization of excess cost remained unchanged and that the purchase was financed by bank borrowings at an average cost of 15% in 1980 and 18% in 1981, the theoretical pro-forma consolidated results would have been as follows:

	1981	1980
	(thousands of dollars)	
CPMC net income as reported net of dividends to minority shareholders	18,243	26,827
Less: Post-acquisition income recorded in 1981	8,215	—
	10,028	26,827
Adjustments to amortize purchase price allocation:		
Financial assets and liabilities	25,850	38,550
Securities, depreciation and amortization	(25,278)	(20,077)
	572	18,473
Pro-forma increase in revenues	10,600	45,300
Financing costs:		
Interest	(28,700)	(42,400)
Related income taxes	12,900	19,100
Pro-forma increase (decrease) in net income	(5,200)	22,000
Net income as reported	93,832	157,921
Pro-forma net income	$ 88,632	$179,921
Pro-forma net income per common share		
Canadian method — basic	$2.26	$5.60
— fully diluted	2.21	5.10
United States method — primary	2.24	5.17
— fully diluted	2.21	5.10

17. Additional Information

Pension Plans

The company and its subsidiaries have a number of defined benefit pension plans under which salaried, commissioned and hourly employees are eligible to participate upon retirement after varying years of employment. The company's annual contributions to the plans are charged to income based on actuarial funding requirements.

The latest actuarial valuations of the pension plans were made as at January 1, 1982 using an assumed return on pension plan assets of 8% to 8½%, compared to the 5% to 6½% returns assumed in prior years. This change in actuarial assumptions, along with a change in the method for calculating benefits, resulted in an approximate $11,000,000 increase in the surplus of pension plan assets over accumulated plan future benefits as of January 1, 1982, representing prior years' overfunding of the plans. During 1982, excess contributions were withdrawn from the plans and applied as a reduction of prior years' excess pension plan expense. The resulting 1982 pension expense was a credit to 1982 income of $3,000,000. The balance of the surplus will be used to reduce future years' pension expense. Total contributions to plans charged to income in 1981 and 1980 were $9,400,000 and $10,700,000, respectively, including prior service costs amortized over periods up to 15 years in Canada and up to 30 years in the United States.

The results of the valuations of the Canadian and the United States plans at January 1, 1982, and the principal bases for calculating future benefits were:

—assets with a market value of $85,800,000 were available in the Canadian plans compared to a present value of accumulated plan benefits of $69,800,000. The accumulated plan benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100% vesting of benefits.

—assets with a market value of $101,200,000 were available in the United States plans compared to a present value of accumulated plan benefits of $92,400,000. The accumulated plan benefits calculation was based on the value of currently accrued benefits payable at retirement and includes $84,100,000 of currently vested benefits.

Reclassification of Comparative Figures

Certain 1981 and 1980 amounts have been reclassified to conform with 1982 presentation.

Capitalized Interest Costs

Interest costs, related primarily to real estate joint ventures and revenue property development, are capitalized during the development period and charged against income as part of construction cost or depreciation. Had these interest costs been expensed as incurred, income before income taxes would have been reduced by $3,800,000 in 1982, $19,700,000 in 1981 and $13,100,000 in 1980.

Restrictions on Inter-Company Distributions

Loans, dividend payments and income distributions from certain subsidiaries and joint ventures are restricted by legislation, trust indentures and other agreements.

CPMC, as a public deposit and lending institution, is regulated by various Canadian federal and provincial legislation, the federal portion of which is administered by the Superintendent of Insurance, Canada under broad powers granted by legislation. Regulatory approval would be required for any loan from CPMC to the company. In the case of CPMC as with other large Canadian trust companies, the Superintendent has set guidelines requiring that total borrowings cannot exceed twenty-five times net assets as defined. Under these guidelines, at December 31, 1982, $23,400,000 of CPMC's retained earnings was available for dividends.

Trust indentures relating to $55,300,000 of the long-term debt of The Flintkote Company require approval of the trustees for dividend distributions to the company in excess of defined amounts and loans to the company other than in the normal course of business. No consolidated retained earnings are restricted under such provisions and all but $231,000,000 of Flintkote's net assets could be distributed without the trustee's approval.

Joint venture agreements generally require the approval of all partners prior to the distribution of income or granting of loans to the partners. At December 31, 1982, $21,000,000 of consolidated retained earnings represent unremitted income of joint ventures.

Operating Leases

Minimum annual payments under operating leases for equipment and premises are as follows: 1983—$28,809,000; 1984—$22,758,000; 1985—$16,453,000; 1986—$12,664,000; 1987—$9,263,000; Thereafter—$34,934,000. Rental expense for the years ended December 31, 1982, 1981 and 1980, was $42,000,000, $23,100,000 and $23,900,000, respectively.

Litigation

The company and its subsidiaries are parties to routine claims and suits brought against them in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the company's financial position.

A subsidiary has been named as defendant, along with a number of other United States cement producers, in a number of actions commenced in United States Federal courts by plaintiffs purporting to represent groups alleging that the Portland Cement Association and its members, including the subsidiary, have violated the anti-trust laws by engaging in a conspiracy to fix, stabilize and maintain the price of cement. None of these actions, which have been remanded to the District of Arizona, allege a specific amount of damages, but they seek in addition to other relief, money damages equal to treble the damages allegedly sustained by the plaintiffs. The actions have not progressed beyond the discovery stage. The court has certified the classes sought by plaintiffs to include purchasers of cement and cement-containing products and has notified potential class members of the existence of the actions. Management denies the allegation, believes that the alleged violations are without foundation and intends to vigorously contest all of the actions in which the subsidiary is involved. Based upon investigation of the allegations to date, counsel engaged to represent the subsidiary in these actions believes that the position of management is sound, and remains of the opinion that the subsidiary has meritorious defenses to the claims.

During the past several years, a subsidiary has been named as one of a large number of defendants in numerous actions filed in various jurisdictions seeking actual and exemplary damages based on alleged injuries from asbestos fibers contained in products allegedly made and sold by such defendants. The subsidiary has asserted various defenses to such actions. Should it be found liable for actual damages in any particular case, the subsidiary would still intend to contest any assessment of exemplary damages against it. Product liability insurance is maintained under which insurance carriers have accepted and have been defending such claims. However, the amounts of liability insurance coverage available will depend upon the policy years to which claims are attributed and the amount of any exemplary damages awarded, since one or more of the subsidiary's insurance carriers might contest liability for some or all such exemplary damages if awarded. The subsidiary intends to contest any such coverage denials should this become necessary. Although the amount of liability at December 31, 1982, with respect to these actions cannot be ascertained, in the opinion of management, any resulting liability will not materially affect the company's consolidated financial position.

Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1982	(thousands of dollars)				
Revenues	$324,562	$464,461	$524,425	$446,779	$1,760,227
Gross profit	62,272	90,698	88,678	57,917	299,565
Net income (Loss)	(20,774)	(24,501)	(1,836)	(37,185)	(84,296)
Net income (Loss) per common share					
—basic	$ (0.84)	$ (0.97)	$ (0.20)	$ (1.35)	$ (3.36)
—primary	(0.84)	(0.97)	(0.20)	(1.35)	(3.36)
Market price (The Toronto Stock Exchange)					
—high	$ 24.00	$ 17.25	$ 14.25	$ 24.75	$ 24.75
—low	16.00	11.00	8.88	11.50	8.88
Trading volume on exchanges in					
—Canada	1,233,971	1,886,992	1,371,905	4,359,978	8,852,846
—United States	934,300	2,269,700	1,170,000	6,901,000	11,275,000
—other	29,083	34,039	36,342	42,634	142,098
Total	2,197,354	4,190,731	2,578,247	11,303,612	20,269,944

1981	Three Months Ended March 31	June 30	September 30	December 31	Year Ended December 31
	(thousands of dollars)				
Revenues	$430,948	$591,086	$584,030	$539,858	$2,145,922
Gross profit	123,286	164,678	137,172	153,901	579,037
Net income	20,222	40,803	11,090	21,717	93,832
Net income per common share					
—basic	$ 0.50	$ 1.17	$ 0.19	$ 0.54	$ 2.40
—primary	0.49	1.11	0.23	0.54	2.37
Market price (The Toronto Stock Exchange)					
—high	$ 42.75	$ 41.88	$ 36.50	$ 25.50	$ 42.75
—low	35.00	36.13	23.00	18.38	18.38
Trading volume on exchanges in					
—Canada	1,037,993	1,115,962	1,317,336	1,499,533	4,970,824
—United States	1,279,500	1,141,800	1,865,600	3,034,600	7,321,500
—other	126,610	58,016	32,082	34,118	250,826
Total	2,444,103	2,315,778	3,215,018	4,568,251	12,543,150

19. Supplementary Information on Inflation and Changing Prices (Unaudited)

	1982	1981	1980	1979	1978
Average Canadian Consumer Price Index (1971 = 100 per Statistics Canada)	**262.5**	236.9	210.6	191.2	175.2
Revenues (millions of dollars)					
—as reported	**$1,760**	$2,146	$2,310	$1,265	$1,143
—in constant dollars	**1,760**	2,378	2,829	1,737	1,713
Dividends per common share					
—as reported	**$ 0.90**	$ 1.80	$ 1.65	$ 1.25	$ 0.81
—in constant dollars	**0.90**	2.00	2.06	1.72	1.21
Market price per common share at year-end					
—historical amount	**$20.25**	$23.38	$38.62	$25.75	$18.88
—in constant dollars	**19.61**	24.75	45.81	33.97	27.34

Overview

Although the North American economy experienced lower inflation during 1982 than in recent years, the average Consumer Price Index (CPI) in Canada still increased by 10.8% during the current year. In order to provide financial statement users with information as to the effects of inflation on an enterprise, guidelines for the calculation and disclosure of inflation-adjusted information have been issued by both the Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board (FASB), United States. Both the CICA and FASB prescribe a "Current Cost" computation to measure the effects of specific inflation on a company's particular businesses and the use of the Consumer Price Index to calculate amounts of equivalent purchasing power by adjusting for the effects of general inflation. The measurements concentrate on the amount of inventories and fixed assets necessary to maintain "Operating Capability" of an entity and the effects which these amounts, restated for the effects of inflation, would have on its operations and financing.

These computations as explained hereunder, involve estimates and subjective judgments which greatly reduce comparability to actual operating conditions and the reader is cautioned accordingly.

Current Cost Inflation

The prescribed method to approximate specific inflation is to determine today's cost to replace assets with the same type as those produced or utilized by the company. The methods used to determine this theoretical cost vary depending on the industry and type of asset.

In the case of Genstar, the current cost of inventories of manufactured products and housing units and the related cost of sales have been determined by applying recent purchase prices and standard costs to units on hand or the use of internal and external indices for changes in costs. Land development inventories and cost of sales have been adjusted by the Canadian and U.S. consumer price indices for land content and internal cost increment indices for the development content. The CPI has been used for land content because the unique nature of land purchased for future development precludes the determination of a sufficiently accurate alternative current cost.

The current cost of fixed assets of Genstar's manufacturing and marine operations has been determined using recent construction and purchase costs or internal, external and trade association indices. Current cost of mobile equipment was based on quoted used equipment prices, internal indices and new equipment prices factored for differences in utility. The fixed assets of The Flintkote Company have been included at the consolidated carrying value at December 31, 1979, the date of acquisition, adjusted for changes in external indices since that date. If new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1982 current cost and historic estimated useful lives.

During 1982, specific inventories and fixed assets have been reduced by approximately $47,000,000 to their net realizable value. Management believes that the resulting book values also represent the current value of the assets, and accordingly, their current cost values were not increased above these amounts.

Monetary assets and liabilities are restated only for the current year's general inflation. The company's investments in non-consolidated financial services subsidiaries and joint ventures have not been restated for the effects of inflation because the underlying assets and liabilities are primarily monetary in nature and therefore not subject to specific inflation.

General Inflation

The amount disclosed as "Current year adjustment for specific inflation in excess of general inflation" is the difference between the effects of general inflation and the effects of change in specific prices during the year. The Canadian CPI has been used as the measure of general inflation and has been applied to restate items from historical cost to equivalent average 1982 dollars. Foreign currency current cost amounts were translated to Canadian dollars and then restated into average 1982 dollars. A resulting translation adjustment represents the portion of the current year's increase in current cost that is due to the change in exchange rates between the foreign and Canadian currencies.

The "Constant Dollar" disclosures made in prior years were based on the Canadian CPI, whereas a significant portion of the company's operations are conducted in foreign currencies. Constant dollar disclosures for these operations based on the Canadian CPI do not accurately reflect the financial results and relationships as measured in the currency in which the foreign business is conducted and therefore the constant dollar disclosures have been eliminated.

Purchasing Power Gain/Financing Adjustment

As the purchasing power of the dollar declines, so does the true economic cost to repay liabilities. The company's net monetary liabilities have been adjusted to average 1982 dollars using the Canadian CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1982 dollars, is the purchasing power gain.

This considerable gain can be viewed as the purchasing power decrease accruing to the lender of capital and results from using borrowed funds as a hedge against the effects of inflation on related assets.

The Canadian inflation accounting guidelines identify another allocation of the effects of inflation between the lender of capital and the common shareholder in addition to the purchasing power gain. In periods of increasing prices the company will require additional capital to offset the effect of increases in the specific prices of inventories and fixed assets and is referred to as maintenance of the operating capability of the enterprise. The capital required to maintain the operating capability of the enterprise is provided by a combination of shareholders' investment and borrowed funds. The financing adjustment represents the increase in the current cost amounts of inventories and fixed assets which theoretically would be financed by debt given the company's average debt to equity structure for the year. The use of debt to finance these assets reduces the amount of the net increase in current cost that theoretically would be deducted from income attributable to shareholders.

Capital Stock and Retained Earnings

The company's total assets less liabilities have been adjusted to average 1982 dollars and for the current cost/constant dollar differential of inventories and fixed assets to produce a current cost equivalent.

The capital stock and retained earnings are considerably greater than the corresponding historical cost amounts. These adjusted amounts should be viewed as estimates of capital employed on which a fair return must be earned and not as amounts distributable to shareholders as dividends.

Selected 1982, 1981, and 1980 Financial Data Adjusted for the Effects of Changing Prices

(millions of dollars except per share amounts)

	1982	1981*	1980*
Net Income			
In average 1982 dollars	**(84.3)**	103.9	196.8
Current cost adjustments			
Cost of sales	**39.4**	66.2	83.0
Depreciation	**49.9**	52.0	46.7
	$ (173.6)	$ (14.3)	$ 67.1
Gain from Decline in Purchasing Power of Net Liabilities			
In average 1982 dollars	**$ 115.0**	$ 135.0	$ 140.0
Financing Adjustment			
Current cost income adjustment attributable to debt	**$ 35.9**	$ 41.4	$ 47.0
Net Income Per Common Share			
In average 1982 dollars	**$ (6.27)**	$ (1.22)	$ 1.58
Inventories and Fixed Assets			
As reported	**1,641.0**	1,757.4	1,658.5
Adjustment for general inflation	**798.4**	860.7	942.7
Current year adjustment for specific inflation in excess of (less than) general inflation			
Current cost	**(226.3)**	72.6	(25.5)
Foreign exchange translation	**59.8**	(10.7)	46.2
	$2,272.9	$2,680.0	$2,621.9
Financing Adjustment			
Theoretical debt financing of annual change in current cost of assets	**$ 20.6**	$ 21.7	$ 7.5
Capital Stock and Retained Earnings			
In average 1982 dollars	**$1,534.5**	$1,853.4	$1,792.5

*For the purposes of comparison 1981 and 1980 amounts have been increased for the change in the average CPI from those years to 1982. This restates 1981 and 1980 amounts to the purchasing power equivalent of average 1982 dollars.

Expressed in year-end 1982 dollars, inventories, including development land, and fixed assets calculated under the current cost method were $920,600,00 and $1,432,100,000, respectively, compared to historic cost of $750,460,000 and $890,583,000.

Divisions and Subsidiaries

Building Materials and Services

The Flintkote Company
Stamford, Connecticut
J.D. Moran, *Chairman and Chief Executive Officer*
Subsidiaries:
Genstar Building Materials
J.M. Shedden, *President*
Genstar Cement and Lime
J.A. West, *President*
Genstar Stone Products
T.O. Nuttle, *President*

Genstar Cement Limited
Edmonton, Alberta
R.D. MacLean, *President*

Genstar Gypsum Limited
Edmonton, Alberta
G.R. Thompson, *President*

Genstar Materials Limited
Calgary, Alberta
R.C. Kruger, *President*

Genstar Structures Limited
Calgary, Alberta
A.W. Falk, *Chairman*

Genstar Construction Services Limited
Edmonton, Alberta
B. Amos, President

Genstar Conservation Systems, Inc.
San Mateo, California

Genstar Marine Limited
North Vancouver, British Columbia
Subsidiaries:
Seaspan International
A.M. Fowlis, *President*
Genstar Shipyard
W.D. Traill, *President*
McAllister Towing & Salvage
D.G. McAllister, *President*

Land and Real Estate Development

Genstar Properties Limited
Calgary, Alberta
C.D. Wilson, *President*
Subsidiaries:
Broadmoor Homes
R.B. Menard, *President*
Engineered Homes
G.L. Magnussen, *President*
Genstar Homes of Texas
J. T. Thompson, *President*
Keith Homes
L.H. Frodsham, *President*

Genstar Properties
San Diego, California
F. D. Dembinsky, *President*
Subsidiaries:
Genstar Penasquitos
R.B. McLeod, *President*
Genstar Southern Development
M.B. McAfee, *President*

Sutter Hill Developments Limited
Toronto, Ontario
R. M. Kirshner, *President*
Subsidiary:
Sutter Hill Limited (U.S.)
A.S. Armstrong, *President*

Genstar Development Company
Vancouver, British Columbia
V.S.G. Lewis, *President*
Subsidiaries:
Genstar Eastern Development
M.H. Rogers, *President*
Genstar Western Development
L. Cosman, *President*

Genstar Pacific Investments
Newport Beach, California
G.C. Myers, *President*

Financial Services

Genstar Financial Corporation
Calgary, Alberta
Canadian Subsidiary:
Canada Permanent Mortgage Corporation
J.A.C. Hilliker, *Chairman and Chief Executive Officer*

U.S. Subsidiaries:
Genstar Container
T.S. Tan, *President*
Genstar Mortgage
E.H. Plaga, *President*
Genstar Rental Electronics
W.D. Rollnick, *President*
Atlas Thrift of Nevada
W.A. Bel, *President*
First American Title Guaranty
W.B. Morrish, *President*
TXL
R.L. Bishop, *President*
Sutter Hill Ventures
P.M. Wythes, D.L. Anderson, G.L. Baker, Jr., *General Partners*

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Directors and Officers

Directors

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Deputy Chairman
of the Board
Genstar Corporation

**James W. Burns
President
Power Corporation
of Canada
(Holding Company)

**Frank S. Capon
Consultant

August A. Franck
Corporate Director

Donald Getty
President
D. Getty
Investments Ltd.
(Investment Company)

**John B. Hamilton, Q.C.
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

René Lamy
Governor
Société Générale
de Belgique, S.A.
(Portfolio Company)

Walter F. Light
Chairman and
Chief Executive Officer
Northern Telecom Limited
(Telecommunications
Equipment Manufacturer)

*Angus A. MacNaughton
President and Chief
Executive Officer
Genstar Corporation

*W. Earle McLaughlin
Corporate Director

James D. Moran
Chairman of the Board and
Chief Executive Officer
The Flinkote Company
(Genstar Subsidiary)

Yves du Parc
Executive Director
Mines, Minerais et Métaux, S.A.
and Deputy General Manager
Société Générale des Minerais
(International Trading Companies)

*Robert G. Rogers
Chairman of the Board
Canada Harbour
Place Corporation
(International Exposition
Facility Developer)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
Chairman of the Board and
Chief Executive Officer
Genstar Corporation

*Member of the Executive Committee
**Member of the Audit Committee

Officers

Ross J. Turner
Chairman of the Board and
Chief Executive Officer

Angus A. MacNaughton
President and
Chief Executive Officer

Charles de Bar
Deputy Chairman of the Board

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

Bernard T. Johnson
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Nicholas A. Liberatore
Executive Vice President

George F. Michals
Executive Vice President

Gregor G. Peterson
Executive Vice President

J. Ernest Hartz, Jr.
Senior Vice President
and General Counsel

Paul J. Kehoe
Senior Vice President

John H. Chase
Vice President

Paul T. Coté
Vice President and Secretary

Arthur W. Falk
Vice President

Robert D. MacLean
Vice President

Hugh W. McAdams
Vice President
and Treasurer

Richard D. Paterson
Vice President
and Comptroller

Lorimer E. Whitworth
Vice President